



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY

San Diego, California

COMPREHENSIVE  
ANNUAL FINANCIAL

*Report*

FISCAL YEAR ENDED JUNE 30, 2011



SAN DIEGO COUNTY  
REGIONAL AIRPORT AUTHORITY  
San Diego, California

COMPREHENSIVE ANNUAL FINANCIAL

# *Report*

FISCAL YEAR ENDED JUNE 30, 2011

PREPARED BY  
Finance Division of the  
SAN DIEGO COUNTY REGIONAL  
AIRPORT AUTHORITY  
San Diego, California

Vernon D. Evans  
CPA, CIA, CMA, CFE, CGFM Vice President, Finance/CFO

Kathryn J. Kiefer  
Director of Accounting



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 for the fiscal Year Ended June 30, 2011

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## INTRODUCTORY SECTIONS

Authority Overview

Letter of Transmittal

GFOA Certificate of Achievement for Excellence in Financial Reporting

Authority Board Members and Executive Staff

Authority Organization Chart



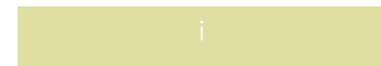
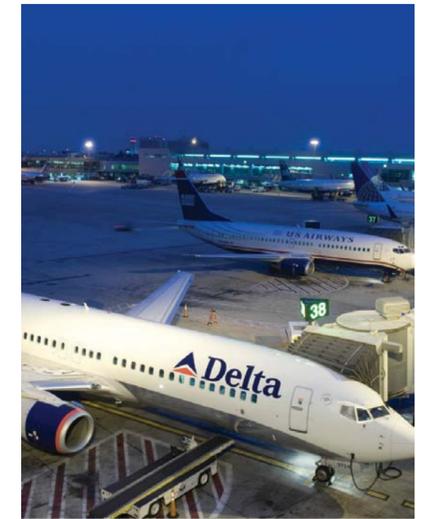


the World On Time

## Authority Overview

The San Diego County Regional Airport Authority was established by state law in 2003 to operate San Diego International Airport and address the region's long-term air transportation needs. A 12-member appointed Board representing all areas of the County governs the Airport Authority.

San Diego International Airport - funded through user fees and not local taxes - is the nation's busiest single runway commercial service airport, served some 16.9 million passengers in fiscal year 2011.





## SAN DIEGO COUNTY REGIONAL AIRPORT AUTHORITY

P.O. BOX 82776, SAN DIEGO, CA 92138-2776  
619.400.2400 WWW.SAN.ORG

October 15, 2011

To the Public:

The Comprehensive Annual Financial Report (the "CAFR") of the San Diego County Regional Airport Authority ("SDCRAA," or the "Airport Authority") for the fiscal year ended June 30, 2011, is submitted herewith. The Airport Authority's Accounting Department prepared this report. Responsibility for the accuracy, completeness and fairness of the presented data, including all disclosures, rests with the Airport Authority. To the best of our knowledge and belief, this report fairly presents and fully discloses the Airport Authority's financial position, results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America (referred to as "GAAP"). The independent auditor's report on the financial statements is included on page 1.

GAAP requires that management provide a narrative overview and analysis to accompany the financial statements in the form of a Management's Discussion and Analysis (MD&A). This letter of transmittal should be read in conjunction with the MD&A, which can be found immediately following the report of the independent auditors in the Financial Section of this report.

### PROFILE OF AUTHORITY AND ORGANIZATIONAL STRUCTURE

The Airport Authority was established pursuant to California State Act AB 93, which was signed into California State law in October 2001. The Act established the Airport Authority on January 1, 2003, as a local agency of regional government with jurisdiction throughout the County of San Diego (the "County"). The Airport Authority is vested with five principal responsibilities: (1) the operation of San Diego International Airport ("SDIA", or the "Airport"), (2) the planning and operation of any future airport that could be developed as a supplement to or replacement for SDIA, (3) the development of a comprehensive land use plan for the entire County, (4) to serve as the region's Airport Land Use Commission, and (5) to prepare a Regional Aviation Strategic Plan.

The Airport Authority is governed by an appointed Board of Directors of nine members representing all areas of San Diego County and three additional members serving as non-voting, ex-officio Board members. Three Board members serve as the Executive Committee consisting of one Board member from each of the following "defined jurisdictions"; the City of San Diego, the county of San Diego, and one Board member from among the east county cities, south county cities, or north county inland cities. The Board members serve three year terms in accordance with SB 10.

The management and operations of the Airport Authority are carried out by a staff headed by the President/Chief Executive Officer, who is appointed by and reports directly to the Airport Authority Board Members.



SAN DIEGO  
INTERNATIONAL  
AIRPORT

LETTER OF TRANSMITTAL

### ECONOMIC CONDITION

The Air Trade Area for the airport includes the County and portions of neighboring Orange and Riverside Counties and Baja California del Norte, Mexico. The U.S. Census Bureau estimates that as of July 1, 2010, San Diego County is the second most populous county in California, just behind Los Angeles County and the fifth largest county in the United States, with a population of 3.1 million. The county's population has grown at an average rate of 0.5% in the past 5 years. The majority of the County's population is concentrated in the western portion. The largest cities in the County are San Diego (45%), Chula Vista (8%), Oceanside (6%), Escondido (5%), El Cajon (3%), Vista (3%), and Encinitas (2%). The combined San Diego/Tijuana metropolitan population exceeds 5 million inhabitants.

Typically, San Diego County has enjoyed a stable economic climate during the past six years, with unemployment rates lower than the State of California's. The recession continues to hit San Diego County, though slightly less than compared to the rest of the state. In June 2011, the County's unemployment rate was 10.5 percent. This compares with an unadjusted unemployment rate of 12 percent for California and 9.1 percent for the nation during the same period. The region's economy is diversified and provides an attractive mix of leisure and business sectors. The County is home to more than 150 publicly traded companies.

Fiscal year 2011 experienced a very slight drop in enplanements due to the economic recession. Passenger enplanements totaled 8.44 million, compared to 8.45 million in fiscal year 2010. See the Management's Discussion and Analysis section of the Financial Section of this report for further discussion of the current year activity.

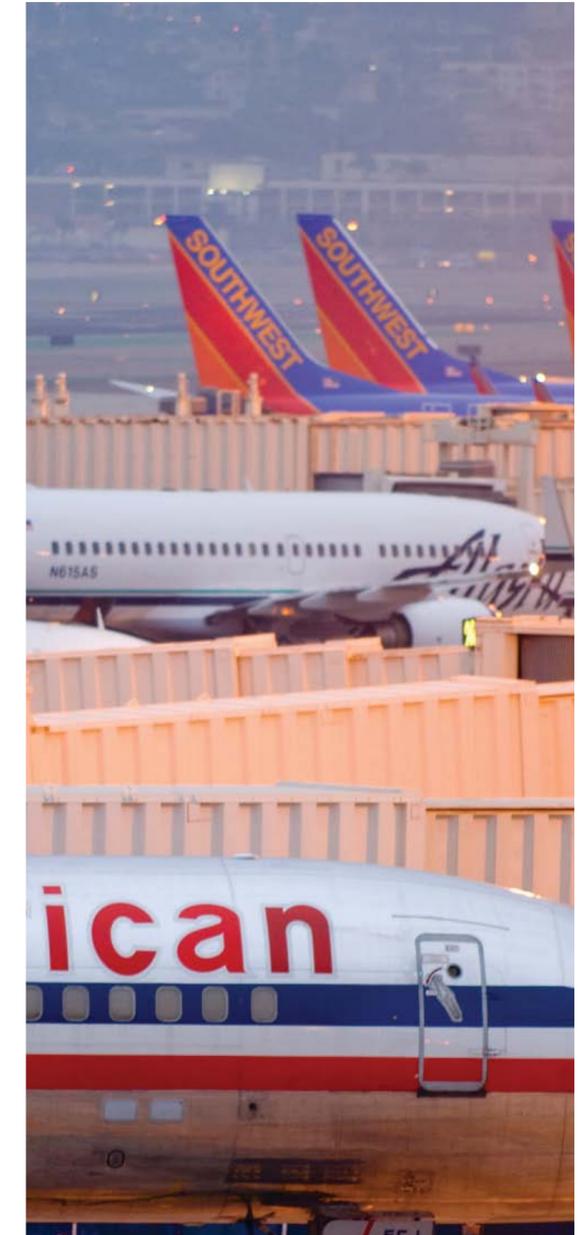
### MAJOR INITIATIVES AND ACCOMPLISHMENTS

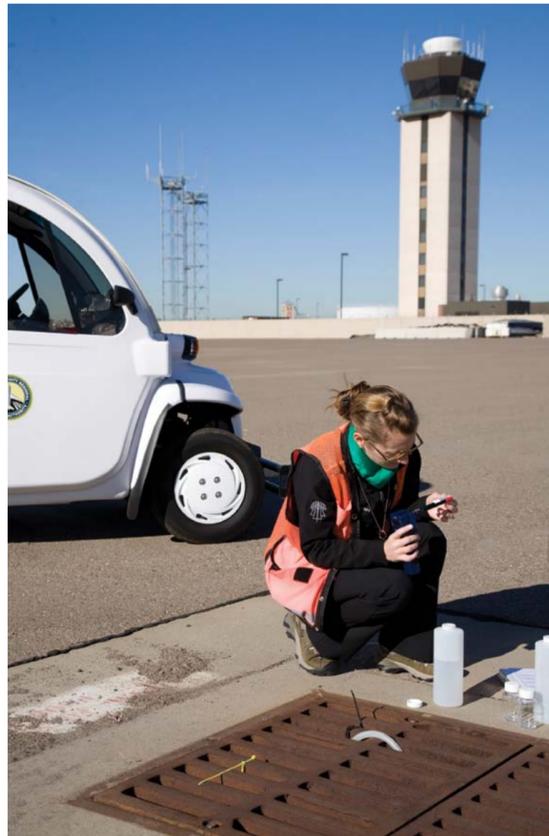
**The Airport Authority Remains Financially Strong** – The Airport Authority remains focused on increasing net income while maintaining reasonable airline charges and reducing cost impacts to the signatory airlines during the period of economic recession. In fiscal year 2011 the Authority continued to enforce strict cost containment by increasing total operating expenses before depreciation by only 0.5 percent over 2010. Salary freezes remained in effect to offset the higher medical and retirement benefit expenses. SDIA's cost per enplanement (CPE) for fiscal year ended 2011 was \$7.54, an increase of \$0.05 (or 0.67%) from \$7.49 originally budgeted. The fiscal year 2011 operating revenues of \$144 million were a primary factor in the increase in net income of \$47 million in comparison to fiscal year 2010, \$134 million. The Authority generated strong net income and produced debt service coverage of 2.6 times.

**Largest Bond Sale in SDIA's History Sold at an Attractive Rate** – In October 2010 the Airport Authority completed the largest bond sale to date. Proceeds of the \$572,565,000 Subordinate Airport Revenue Bonds provided continued funding for The Green Build Terminal 2 expansion program and a variety of projects in the Capital Improvement Program, (CIP), for SDIA. The Airport Authority was able to secure an interest rate of 4.28 percent for the 30 year bonds. The Airport Authority received the strong A/A2/A ratings on its series 2010 subordinate lien airport revenue bonds debt by Fitch, Moody's and Standard & Poor's, respectively. In addition, the rating agencies affirmed the outstanding senior lien airport revenue bond ratings of A+/A1/A+ respectively. The Airport Authority projects that no additional bond issuances for the Green Build/CIP will be necessary until fiscal year 2013.

**Sustainability** – The Airport Authority adopted a sustainability policy in February 2008 to recognize the need to be a truly sustainable organization. The policy mandates the development of sustainable practices in core processes, policies, programs and precepts of the Authority. The Airport Authority has adopted four sustainable elements (EONS): Economic Viability (E),

LETTER OF TRANSMITTAL





Operational Excellence (O), Natural Resource Conservation (N), and Social Responsibility (S) to guide sustainable practices in all areas.

The Airport Authority is committed to pursuing a sustainable environment by actively participating in local and regional efforts, such as regional alliances, and strongly encourages and promotes sustainable practices both in the aviation industry and the region. That commitment is demonstrated by the Authority's engagement in numerous sustainability initiatives, in six key areas: Air Quality, Energy Efficiency, Environmental Protection, Green Buildings, Water Conservation and Waste Management.

During fiscal year 2011, energy saving improvements and modifications were made to air conditioning and heating equipment realizing \$500 thousand of reduced utilities expense compared to fiscal year 2010. Other environmental sustainability accomplishments included:

- Implementation of a new Ground Transportation Management Plan, which incentivizes gradual conversion of all airport taxicabs and shuttles to electric, alternative fuel or other non-polluting vehicles by the year 2017.
- Incorporation of "green" design principles as part of the \$1 billion Green Build Terminal 2 expansion; crews are recycling or reusing 99 percent of construction material waste generated by the project, which includes steel and concrete.

For the seventh year in a row the Airport Authority was honored by the City of San Diego with a "Recycler of the Year" award. Highlights of the airport's recycling initiatives included:

- A new universal waste program, resulting in nearly 25,000 pounds of fluorescent light bulbs, batteries and other materials collected and recycled in fiscal year 2011.
- Electronic waste collection events, which have contributed to recycling more than 51 tons of e-waste since 2006.
- A new central waste disposal and recycling facility that handles 95 percent of the airport's waste and recyclables, streamlining the airport's waste management system.
- Single-stream recycling program, an ongoing program that has been a huge success; recycled waste product totaled more than 633 tons in 2011, saving close to \$439 thousand in annual waste disposal fees. In addition, a new policy was implemented in fiscal year 2011 to require all large internal events to have recycling containers and processes in place.

**Regional Aviation Strategic Plan (RASP)** – California Senate Bill 10 mandated that the San Diego County Regional Airport Authority (SDCRAA), in collaboration with the San Diego Association of Governments (SANDAG), prepare a Regional Aviation Strategic Plan (RASP) to evaluate ways to optimize the public use airports in the region by June 2011. The RASP defined the region's long range air transportation needs and the roles of each airport in meeting those needs. The analysis considered the region's aviation assets and the opportunities and constraints specific to each airport.

LETTER OF TRANSMITTAL

In late 2010, technical work on the RASP was completed. Working closely with the airport operators in the region, the Airport Authority identified 15 alternative scenarios that could potentially benefit and help optimize the region's aviation system. The 15 alternative scenarios were organized into five categories:

1. **Commercial Passenger Optimization.** Intended to enhance commercial passenger service at San Diego International and McClellan-Palomar airports and extend the horizon for when these facilities will reach their respective capacities.
2. **Enhanced Utilization of Tijuana.** Intended to optimize the utilization of Tijuana Rodriguez International Airport by improving cross-border access to that facility.
3. **California High-Speed Rail.** Intended to investigate the most optimal location for high-speed rail infrastructure in San Diego.
4. **General Aviation Optimization.** Intended to optimize airport capacity in San Diego County by distributing general aviation activity and based aircraft away from airports that are – or could be – dedicated to commercial passenger service.
5. **Air Cargo Optimization.** Intended to optimize airport capacity in San Diego County by distributing air cargo activity away from airports dedicated to commercial passenger service. This scenario was eliminated from consideration based on technical input received from the FAA regarding the infeasibility of establishing precision approaches at Brown Field.

The RASP was accepted by the Board of the SDCRAA on March 3, 2011. The RASP was transmitted to SANDAG and has been included in SANDAG's Airport Multimodal Accessibility Plan and 2050 Regional Transportation Plan (RTP). The 2050 RTP is anticipated to be adopted by the SANDAG Board of Directors later in 2011.

**SMS Text Alert Program** – SDIA is one of the first airports in the U.S. to launch an SMS (short message service) text alert program providing quick, up-to-the-minute updates to travelers and residents via their mobile phones. The airport's text alerts include information about The Green Build construction at Terminal 2 that may impact travel to/from the airport, as well as enabling users to get information regarding parking, terminals and more.

**Mobile Website** – In 2011 San Diego International Airport created a new mobile website accessible by any mobile device with internet access. SDIA is one of the first U.S. airports to launch a mobile website. The mobile website is a specialized version of the airport's traditional website, customized to provide the most relevant and in-demand information for travelers in an easy-to-read and easy-to-navigate mobile format. Featured sections of the SDIA mobile website include: flight status, airline information, parking, ground transportation, car rental and The Green Build.

**British Airways** – On June 1, 2011, British Airways launched a daily non-stop flight service between San Diego and London Heathrow, using the carrier's popular three class Boeing 777 aircraft. In addition to passengers and their baggage, the British Airways B777 carries up to 18 tons of cargo between San Diego and London. Prior to the start of this service, San Diego was the largest U.S. market without service to Europe. This single daily flight is expected to generate approximately \$5 million dollars in annual hotel room revenue for San Diego.

LETTER OF TRANSMITTAL





**Condé Nast Traveler** – Readers of Condé Nast Traveler magazine ranked San Diego International Airport highly in the magazine’s annual Business Travel Awards. This year, SDIA was ranked fifth in the nation’s top airports, and first in California. More than 25,000 business travelers were surveyed, and the results appeared in the October 2010 issue of Condé Nast Traveler. The six key areas that helped SDIA rate so favorably are: location and access, ease of connections, customs and baggage, dining and shopping, comfort and design, perceived safety and security.

**The Green Build** - In 2009, the Airport Authority Board authorized design, construction and funding for The Green Build Terminal 2 West expansion program. The program will enhance the travelers’ experience and the airport’s safety and efficiency. This is the largest expansion in SDIA’s 82 year history. The Board decision included approval of the budget for The Green Build at approximately \$1 billion – (\$864 million direct costs and \$145 million in financing costs). The expansion of Terminal 2 West will include:

- 10 new gates at Terminal 2 West
- Taxiway improvements to enhance the flow of aircraft traffic
- New, expanded dining and shopping options
- More comfortable holding areas at the gates
- More and improved security checkpoints
- A dual-level roadway at Terminal 2, featuring an arrivals curb on level one and a departures curb on level two, to relieve current curbside congestion, and smart curb technology which allows travelers to check in for their flight even before entering the terminal
- Additional parking for remain-over-night aircraft to eliminate the need for aircraft to taxi across the runway
- Public art integrated throughout the terminal expansion and outside area

The Green Build will help meet near-term demand at SDIA, and make the travel experience more comfortable and enjoyable for all airport users. At peak construction, The Green Build is expected to provide nearly 1,000 construction-related jobs. Sustainability and environmental sensitivity are hallmarks of the program. Construction will incorporate sustainable design principles with the goal of meeting Leadership in Energy and Environmental Design (LEED) Silver certification.

The first phase of the program is the construction of the parking apron for remain-over-night aircraft. Phase two includes terminal and dual-level roadway construction which began in 2010. The Green Build is expected to be completed in mid 2013. Public information about the airport improvements is available at [www.san.org/greenbuild](http://www.san.org/greenbuild).

In fiscal year 2011, the San Diego International Airport celebrated a major milestone for The Green Build. At a “Topping Out” ceremony, the final steel beam for the terminal expansion was installed, marking the completion of the steel work. The ceremony was attended by more than 200 elected officials, Airport Authority Board members, business and community leaders and members of the construction team.

Guests were able to sign the beam prior to its installation; the beam was then raised into place, topped with an American flag and an evergreen tree. The Green Build is an economic stimulus for the region, with more than \$146 million in contracts awarded to local business to date.

**Quieter Home Program** – The Quieter Home Program is an ongoing program that provides acoustical attenuation to the homes located in SDIA’s noise impacted area. To date, the Quieter Home Program has sound-attenuated over 2,000 homes. In fiscal year 2011, the Quieter Home Program opened a showroom facility showcasing various treatments for homeowners to view prior to construction on their homes. More information about the program can be found at [www.quieterhome.org](http://www.quieterhome.org).

**Airport Land Use Compatibility Plan** – The Airport Authority Board serves as the Airport Land Use Commission (ALUC) for San Diego County. On January 26, 2010, the Airport Authority adopted Airport Land Use Compatibility Plans for five urban airports in San Diego County. The adoption of the ALUCPs for the five urban airports is the culmination of a four-year public process. The SDCRAA in its role as the Airport Land Use Commission for San Diego County kicked off the planning and public involvement phases of updating the Airport Land Use Compatibility Plan (ALUCP) for San Diego International Airport. This included a Public Workshop in January 2011 and a media briefing that provided information and answered questions about the process for updating the ALUCP for SDIA and related public involvement.

The plans provide guidance to local jurisdictions and property owners about the types of new land uses that are appropriate around airports. These plans also promote the safety and general welfare of people, property and aircraft on the ground and in the air in the vicinity of the airports, and they protect airports from encroachment by new incompatible land uses that could restrict their operations.

By state law, ALUCs have two specific duties:

- To prepare and adopt Airport Land Use Compatibility Plans, also known as ALUCPs, for the county’s 16 public-use and military airports
- To review certain land use actions of local agencies and airport plans for consistency with their respective airport compatibility plans

**Consolidated Rental Car Facility begins environmental work** – In fiscal year 2011 the Airport Authority completed environmental work on a future consolidated rental car facility (CONRAC) on the north side of San Diego International Airport. Located just off Pacific Highway, the CONRAC will be designed to make rental car operations at the airport more efficient and convenient for travelers by combining them in one central facility. It will also ease airport vehicular traffic, and consequently carbon emissions, by reducing the number of rental car buses circulating the terminals to pick up and drop off passengers. The CONRAC was identified in the airport master plan’s Environmental Impact Report, certified in May 2008. Additional environmental analysis and planning are required prior to beginning construction on the CONRAC.

Other projects being evaluated as part of the environmental work for the CONRAC include public parking, likely within the CONRAC, an off-airport roadway connecting the CONRAC and the passenger terminals, and development of the former Teledyne Ryan site and additional cargo facilities.

**Public Art** – The Airport Art Program provides enhanced customer service by presenting artwork and programming that engage travelers in innovative, memorable, considerate experiences. It has grown to promote creative programs that directly impact the public through customer service by enhancing airport facilities and also airport operations. Through the exhibition and production of art from individual artists and cultural institutions, the program contributes to the airport’s mission by promoting regional prosperity. This positions the airport to serve not only the traveling public, but





also the greater San Diego region by way of directly supporting cultural tourism through the three art program components: Temporary and Rotating Exhibits, Performing Art and Public Art.

In fiscal year 2011, fourteen changing exhibitions were coordinated, thirty live performances were presented, and four permanent public art installations were completed. Additionally, the Authority launched a new website, [www.art.san.org](http://www.art.san.org) and hosted one community outreach webinar for 48 artists. The American Association of Airport Executives (AAAE) and San Diego International Airport hosted the 9th Annual AAAE Arts in the Airport Workshop from June 12-14, 2011. This workshop was designed to instruct attendees on how and why to begin an airport art program, how to fund and maintain programs, how art programs may generate revenue and more. Following the Workshop on Wednesday, June 15, the University of California at San Diego (UCSD) welcomed attendees of the Americans for the Arts Public Art Preconference. The preconference provided professional development opportunities and visioning sessions to discuss current public art innovations and resources.

**FINANCIAL INFORMATION**

The Board sets the policy that provides for appropriate internal controls and provides oversight to ensure that the assets of the Airport Authority are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow for preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal controls are designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the valuation of costs and benefits requires estimates and judgments by management.

**INDEPENDENT AUDIT**

The financial records of the Airport Authority are audited annually by independent public accountants. McGladrey & Pullen, LLP performed the audit for the current fiscal year ended June 30, 2011. Their report on the financial statements is presented in this report.

**AWARDS AND ACKNOWLEDGEMENTS**

The Airport Authority has been the recipient of numerous awards in customer service, marketing and other areas. A few of the recognitions presented to the Authority received during the fiscal year ended June 30, 2011 were as follows:

The Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting This recognition is for the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This was the eighth year that the Airport Authority received this award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we will submit it to the GFOA to determine its eligibility for another certificate.

The Government Finance Officers Association of the United States and Canada Distinguished Budget Presentation Award The achievement of this award is based on a governmental entity's preparation and issuance of budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the

GFOA's recommended practices on budgeting. This is the sixth year that the Airport Authority received this award.

Airport Authority President/CEO Thella Bowens named First Vice Chair of the Board of Airports Council International – Airport Authority President/CEO Thella Bowens was named First Vice Chair of the Board of Airports Council International – North America (ACI-NA) at the annual General Membership Business Meeting of the ACI-NA in September 2010. Bowens' appointment is for the duration of the 2011 Board year. Traditionally, ACI-NA First Vice Chair moves into the role of ACI-NA Chair after a year of service as First Vice Chair. The 2011 ACI-NA Annual Conference and Exhibition will be held in San Diego in October, 2011.

Workplace Excellence – The San Diego County Regional Airport Authority has received a first-place Marble Award as the Best Medium-Sized Employer for Workplace Excellence from the San Diego Society for Human Resource Management. From over 97,000 employers in the county, 130 employers were nominated by their employees as an excellent place to work. The Airport Authority was recognized for its employee wellness programs and initiatives, which, through workplace practices, help to improve the quality and longevity of employees' lives, increase employee engagement and decrease insurance costs.

Small Business Outreach – The San Diego chapter of the American Subcontracting Association (ASA) recognized the Airport Authority for its outstanding contribution toward, and support of the San Diego subcontracting community's issues and concerns. The award is not given out annually, but only when ASA chooses to recognize a public agency for outstanding efforts.

The preparation of the CAFR was made possible by the dedicated service and efforts of the Airport's Finance Division. We sincerely appreciate everyone's efforts in preparing this report.

Respectfully submitted,

Thella F. Bowens  
President/Chief Executive Officer

Vernon D. Evans, CPA  
Vice President, Finance/Treasurer





## GFOA Certificate of Achievement in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the San Diego County Regional Airport Authority (California) for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010. This is the eighth consecutive year that the Airport Authority has achieved this prestigious award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

## Certificate of Achievement for Excellence in Financial Reporting

Presented to  
**San Diego County  
Regional Airport Authority  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2010

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Linda C. Danson*

President

*Jeffrey R. Emer*

Executive Director

**AUTHORITY BOARD MEMBERS AND EXECUTIVE STAFF**  
As of June 30, 2011

**Board of Directors**

**Executive Committee**

Robert H. Gleason - Chair  
Tom Smisek - Vice Chair  
Greg Cox

**General Members**

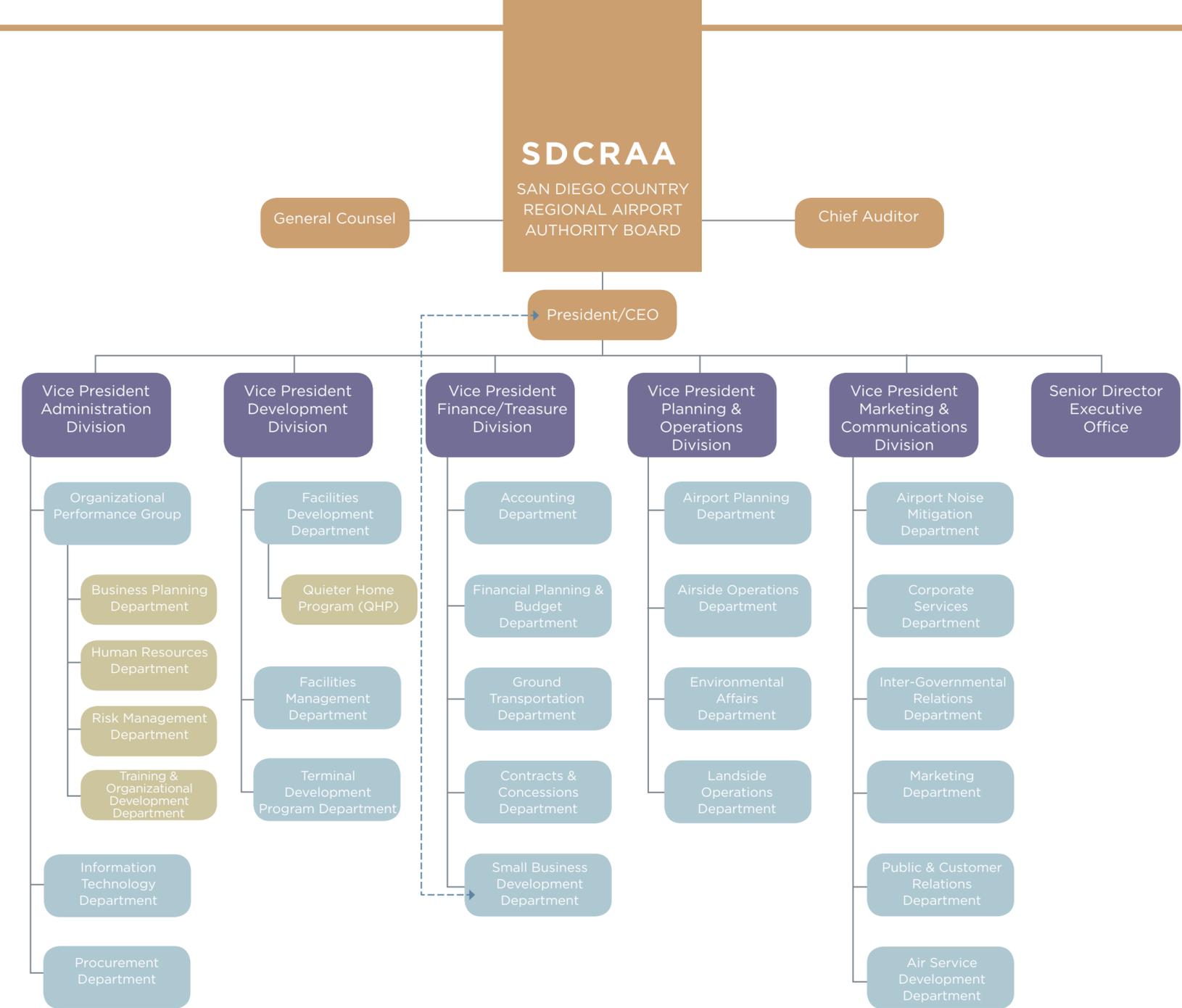
Bruce R. Boland  
Jim Desmond  
Lloyd B. Hubbs  
Jim Panknin  
Paul Robinson  
Anthony K. Young

**Ex-Officio Members**

Laurie Berman  
Colonel Frank A. Richie  
Pedro Reyes

**Executive Staff**

Thella F. Bowens, President and CEO  
Brent Buma, Vice President, Marketing & Communications Division  
Mark Burchyett, Chief Auditor  
Bryan Enarson, Vice President, Development Division  
Vernon D. Evans, Vice President, CFO/Treasurer, Finance Division  
Matt Harris, Senior Director  
Breton K. Lobner, General Counsel  
Angela Shafer-Payne, Vice President, Planning and Operations Division  
Jeffrey Woodson, Vice President, Administration Division



AUTHORITY ORGANIZATION CHART



## FINANCIAL SECTION

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements:

- Balance Sheets
- Statements of Revenues, Expenses and Changes in Authority Net Assets
- Statements of Cash Flows
- Notes to Financial Statements





## Independent Auditor's Report



### Independent Auditor's Report

To the Members of the Board  
San Diego County Regional Airport Authority  
San Diego, CA

We have audited the accompanying basic financial statements of the San Diego County Regional Airport Authority (the Airport Authority) as of and for the years ended June 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Airport Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Airport Authority as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Airport Authority's basic financial statements. The accompanying introductory and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*McGladrey & Pullen, LLP*

San Diego, CA  
October 14, 2011



# Management's Discussion and Analysis

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE PERIOD JULY 1, 2010 TO JUNE 30, 2011

### INTRODUCTION

This section of the San Diego County Regional Airport Authority's (the Airport Authority) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the Airport Authority for the fiscal years ended June 30, 2011 and 2010.

The Airport Authority was established on January 1, 2002, as an independent agency. On January 1, 2003, the operations and assets of San Diego International Airport (SDIA), transferred from the San Diego Unified Port District (District) to the Airport Authority. The Airport Authority adopted a June 30 fiscal year and produced its first audited financial statements for the six months ended June 30, 2003.

### USING THE FINANCIAL STATEMENTS

The financial section of this annual report consists of three parts: Management's Discussion and Analysis (MD&A), the basic financial statements, and the notes to the financial statements. The report includes the following three basic financial statements: the balance sheet, the statement of revenues, expenses and change in net assets, and the statement of cash flows. The accompanying notes to the financial statements are essential to a full understanding of the data contained in the financial statements.

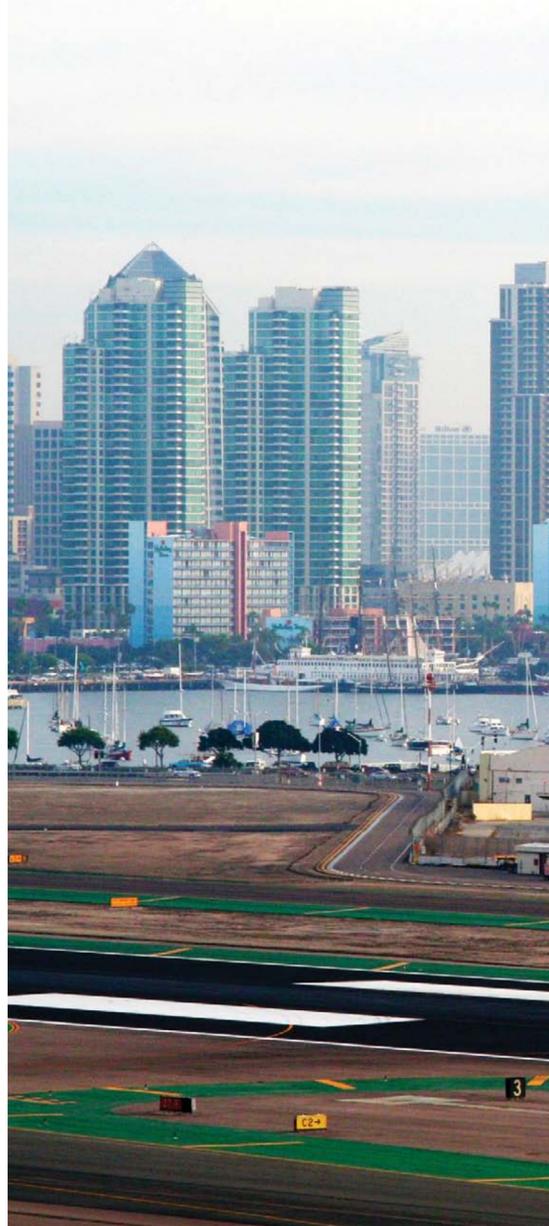
The comparative Balance Sheets depict the Airport Authority's financial position as of a point in time—June 30, 2011, and June 30, 2010—and include all assets and liabilities of the Airport Authority. The Balance Sheets demonstrate that the Airport Authority's assets minus liabilities equal net assets. Net assets represent the residual interest in the Airport Authority's assets after liabilities are deducted. Net assets are displayed in three components: invested in capital assets, net of related debt; restricted; and unrestricted.

The comparative Statements of Revenues, Expenses and Change in Net Assets report total operating revenues, operating expenses, nonoperating revenues and expenses, and change in Airport Authority net assets for the years ended June 30, 2011 and 2010. Revenues and expenses are categorized as either operating or nonoperating, based upon management's policy as established in accordance with definitions set forth in Governmental Accounting Standards Board (GASB) No. 33 and GASB No. 34. Significant recurring sources of the Airport Authority's revenues, including Passenger Facility Charges (PFC), Customer Facility Charges (CFC) and investment income, are reported as nonoperating revenues. The Airport Authority's interest expense is reported as nonoperating expense. Capital grant contributions represent grants for capital improvement purposes.

The comparative Statements of Cash Flows present information showing how the Airport Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities, and investing activities.

The Airport Authority is a self-sustaining entity receiving most of its revenues through airline user charges and rents from the concessionaires operating at or near SDIA. Since the Airport Authority is not funded by tax revenues, accounts are maintained in an enterprise fund on the accrual basis of accounting. Under accrual accounting, revenues are recognized as soon as they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows. Users of SDIA's facilities provide most of the revenues to operate, maintain, and acquire necessary services and facilities.





### History of Ownership

The public policy decision to transfer responsibility for SDIA from the District to the newly created Airport Authority emanated from recommendations made by the San Diego Regional Efficiency Commission (Commission). The Commission was established to evaluate regional governance in San Diego County and report to the California State Legislature on measures to improve it.

Because of the significant regional consequences of airport development and operations, the Commission concluded that a regional decision-making process should address the future development of airport facilities in San Diego County. In October 2001, the enabling legislation, Assembly Bill 93 (AB 93) established the composition and jurisdiction of the Authority's governing body in a manner that is designed to reflect the collective interests of the entire San Diego region.

The policymakers recognized the complexity of transferring a commercial airport to a newly created entity. To ensure a smooth transition, the Airport Authority was vested with the responsibility to develop and execute an Airport Transition Plan with the complete support and cooperation of the District, the Federal Aviation Administration and the State of California.

### Legislative Background

AB 93 was signed into California State law in October 2001. AB 93 established the Airport Authority on January 1, 2002, as a local agency of regional government with jurisdiction throughout the County of San Diego. Subsequent legislative changes to AB 93 were introduced and passed in California Senate Bill 1896 (the Act). The amendment addresses several points pertaining to the transfer of aviation employees, date of transfer, property leases, property acquisition and purchase of services from the District.

On January 1, 2008, Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was enacted into law expanding the responsibilities of the Airport Authority. The Airport Authority is vested with five principal responsibilities:

- (1) Operation of SDIA.
- (2) Planning and operation of any future airport that could be developed as a supplement or replacement to SDIA.
- (3) Development of comprehensive airport land use compatibility plans for the airports in the County of San Diego.
- (4) Serving as the region's Airport Land Use Commission.
- (5) Preparation of a Regional Aviation Strategic Plan, which was completed in fiscal year 2011.

### Transfer of Assets and Liabilities/Joint Audit

The Airport Authority and District collaboratively developed a financial Memorandum of Understanding (MOU) outlining the essential aspects of the Airport Transfer, including the timely transfer and identification of assets and liabilities relating specifically to SDIA's asset and operations transfer on January 1, 2003. The MOU addresses the transfer process, litigation matters, utility obligations and treatment of employees.

The Airport Authority and the District commissioned a joint audit in accordance with the Act. Independent auditors, McGladrey & Pullen, LLP, issued an audit report dated June 13, 2003, on the Airport Authority's balance sheet as of January 1, 2003. In addition, they prepared an audit report dated October 17, 2003, on the Airport Authority's finances for the first six months of operation ending June 30, 2003.

### Airport Activities Highlights

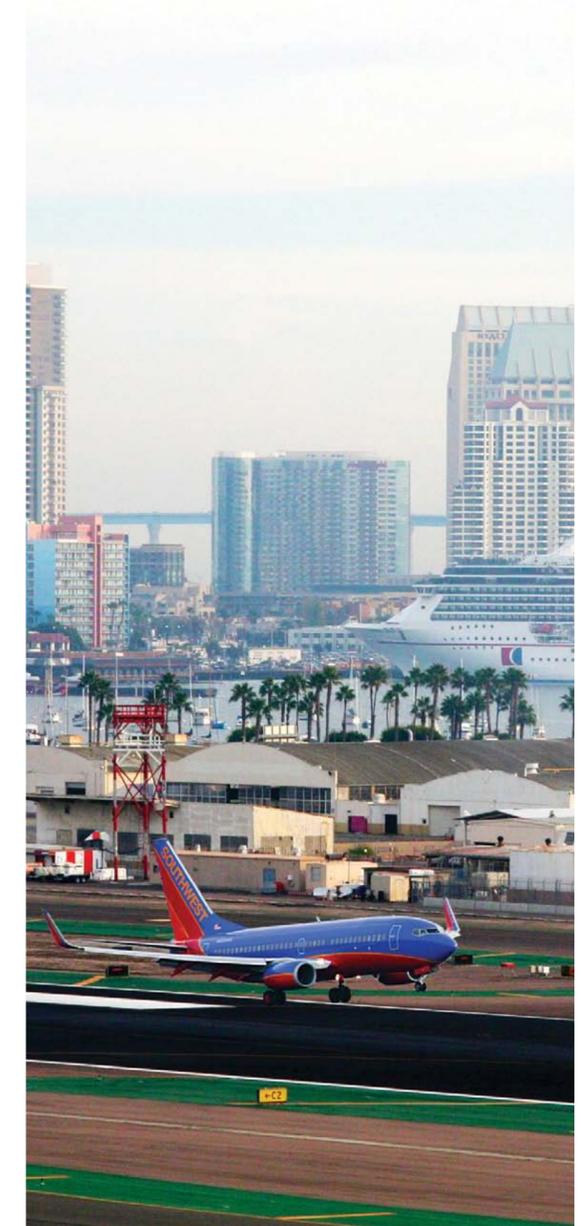
After experiencing enplanement growth in fiscal years 2008, the Airport Authority experienced a decline in enplanements in fiscal years 2009, 2010 and 2011 as did almost all commercial airports across the country due to the downturn in the economy.

The changes in the SDIA's major activities for the current and prior three fiscal years are as follows:

	FY 2009	FY 2010	FY 2011
Enplaned Passengers	8,535,774	8,453,886	<b>8,441,120</b>
% increase (decrease)	(9.1) %	(1.0) %	<b>(0.2) %</b>
Total Passengers	17,073,886	16,917,595	<b>16,868,732</b>
% increase (decrease)	(9.1) %	(0.9) %	<b>(0.3) %</b>
Aircraft Operations	206,675	194,508	<b>186,181</b>
% increase (decrease)	(11.8) %	(5.9) %	<b>(4.3) %</b>
Freight and Mail (in tons)	120,782	125,513	<b>129,961</b>
% increase (decrease)	(16.4) %	3.9 %	<b>3.5 %</b>
Landed Weight (in thousands)	11,279	10,893	<b>10,606</b>
% increase (decrease)	(9.7) %	(3.4) %	<b>(2.6) %</b>

SDIA is a destination airport and is not a hub for any airlines. Further, there is a balanced mixture of SDIA travelers of 50 percent leisure and 50 percent business. These factors generally add to the stability of SDIA enplanements in comparison to most airports. However, SDIA continued to decline in enplanements by 0.2 percent in fiscal year 2011 compared to 2010, and by 1.0 percent in fiscal year 2010 compared to 2009, as the U.S. and local economies went into a steep recession. Prior to the economic downturn, SDIA showed healthy growth of 5.6 percent in passenger enplanements in fiscal year 2008, despite continued financial turmoil in the airline industry.

Overall SDIA experienced declines in aircraft operations of 4.3 percent, an increase in freight and mail of 3.5 percent, and decreased landed weight of 2.6 percent in fiscal year 2011. Most of these reductions are attributed to the economic recession. In comparison to fiscal years 2009 and 2010 most of the declines have leveled off.



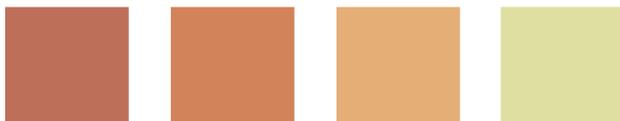


**Statement of Revenues, Expenses and Change in Net Assets (in thousands)**

The metric 'Change in Net Assets' is an indicator of whether the Authority's overall financial condition has improved or deteriorated during the fiscal year. Net assets consistently increased from a healthy 9.2 percent in 2010 to another healthy increase of 8.3 percent for the year ended June 30, 2011. Following is a summary of the statements of revenues, expenses and change in net assets (in thousands):

	FY2009	FY2010	FY2011
Operating revenues	\$ 130,977	\$ 133,695	\$ 144,007
Operating expenses	(153,474)	(159,712)	(166,979)
Nonoperating revenues, net	35,913	45,937	43,419
Capital grant contributions	4,645	27,350	26,355
Increase in net assets	18,061	47,270	46,802
Net assets, beginning of year	495,121	513,182	560,452
Net assets, end of year	\$ 513,182	\$ 560,452	\$ 607,254

Detailed descriptions of the components of operating revenues and expenses, and nonoperating revenues and expenses are described in the sections following.



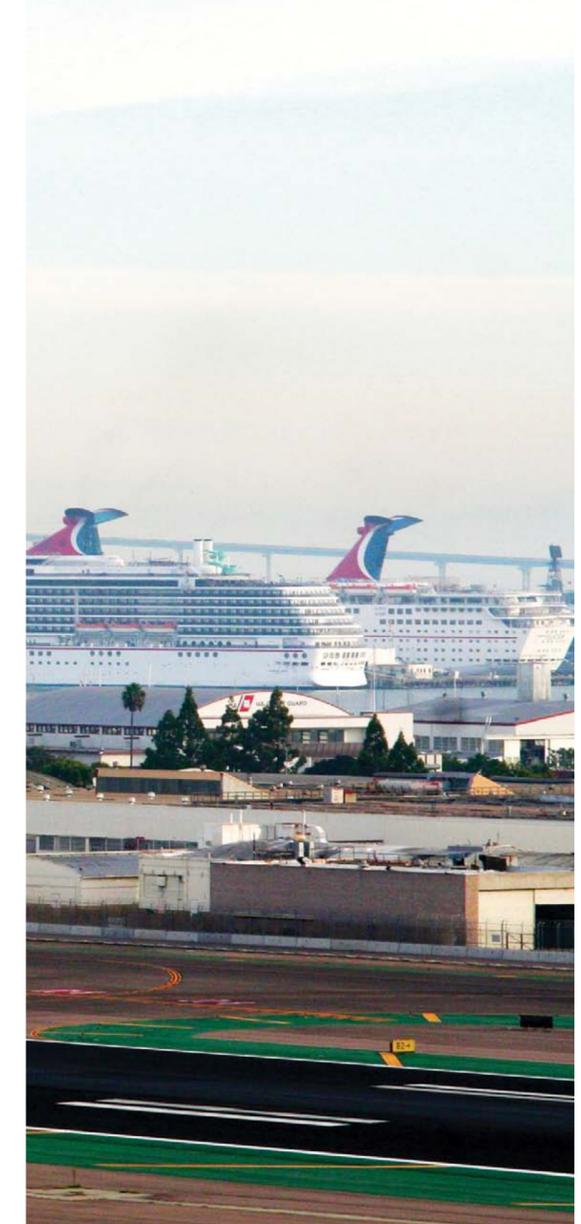
**FINANCIAL HIGHLIGHTS**

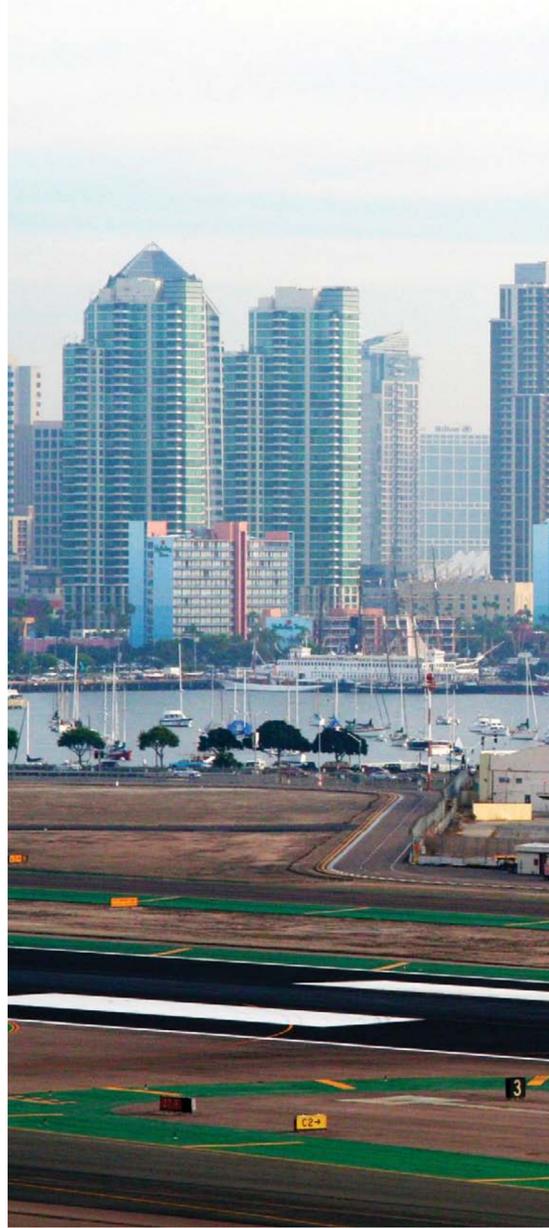
**Operating Revenues (in thousands)**

	FY 2010	FY 2011	From 2010 to 2011	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,672	\$ 18,578	\$ (94)	(0.5) %
Aircraft parking fees	3,406	2,921	(485)	(14.3) %
Building rentals	22,971	26,980	4,009	17.5 %
Security surcharge	11,900	14,887	2,987	25.1 %
Other aviation revenue	1,585	1,597	12	0.8 %
Total airline revenue	58,534	64,963	6,429	11.0 %
Non airline terminal rent	864	869	5	0.6 %
Concession revenue	36,249	37,103	854	2.4 %
Parking and ground transportation revenue	30,296	31,645	1,349	4.5 %
Ground rentals	5,923	7,787	1,864	31.4 %
Other operating revenue	1,829	1,640	(189)	(10.3) %
Total operating revenue	\$ 133,695	\$ 144,007	\$ 10,312	7.7 %

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Airline revenue:				
Landing fees	\$ 18,689	\$ 18,672	\$ (17)	(0.1) %
Aircraft parking fees	3,221	3,406	185	5.7 %
Building rentals	22,195	22,971	776	3.5 %
Security surcharge	10,204	11,900	1,696	16.6 %
Other aviation revenue	1,565	1,585	20	1.3 %
Total airline revenue	55,874	58,534	2,660	4.8 %
Non airline terminal rent	862	864	2	0.2 %
Concession revenue	36,280	36,249	(31)	(0.1) %
Parking and ground transportation revenue	31,492	30,296	(1,196)	(3.8) %
Ground rentals	5,776	5,923	147	2.5 %
Other operating revenue	693	1,829	1,136	163.9 %
Total operating revenue	\$ 130,977	\$ 133,695	\$ 2,718	2.1 %

Fiscal year 2011 compared to 2010: Airline revenue billed to the airlines on a progressive cost recovery system was slightly higher in fiscal year 2011 in comparison to 2010 by approximately \$6.4 million, due to the graduated rate increase from 50 percent to 55 percent for building rentals and 55 percent to 70 percent for security surcharge. Parking revenues increased by approximately \$1.3 million for 2011 due to rate increases for short term parking effective July, 2010 and also long term parking had rate increases in two locations in April, 2011. Ground rentals increased by \$1.9 million due to new lease agreements with FedEx, Southwest, and UPS.

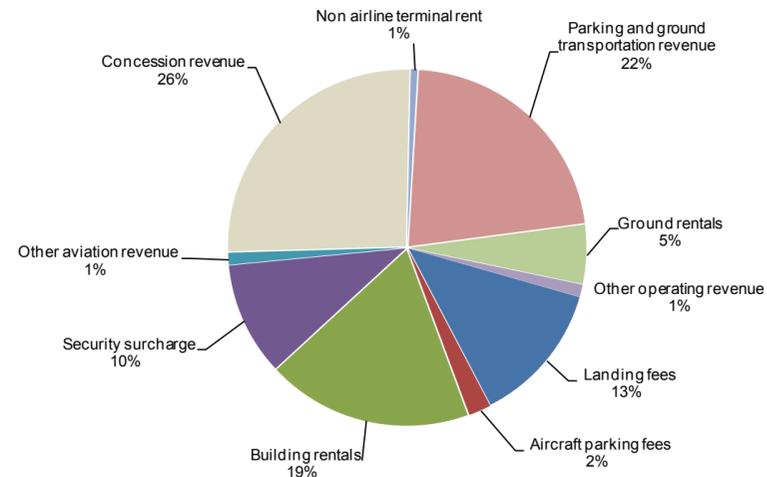




**Operating Revenues (Continued)**

Fiscal year 2010 compared to 2009: Airline revenue billed to the airlines on a progressive cost recovery system was slightly higher in fiscal year 2010 in comparison to 2009 due to the graduated rate increase from 45 percent to 55 percent. Parking revenues decreased by approximately \$1.2 million for 2010 due to reduced enplanements and transactions compared to 2009. The 2010 increase in other operating revenue is primarily due to the federal grant reimbursement of approximately \$1.0 million for the Regional Aviation Strategic Plan (RASP), a requirement of SB 10.

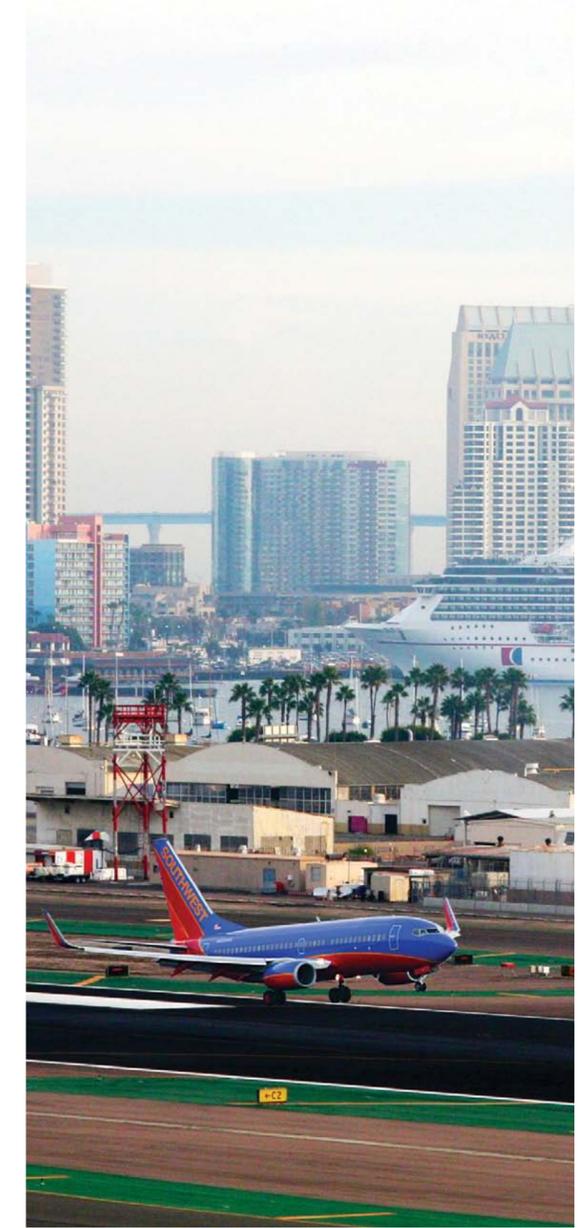
**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2011  
Operating Revenues**



**Operating Expenses (in thousands)**

	FY 2010	FY 2011	From 2010 to 2011	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 35,386	\$ 38,267	\$ 2,881	8.1 %
Contractual services	27,999	26,113	(1,886)	(6.7) %
Safety and security	20,131	21,344	1,213	6.0 %
Space rental	10,906	10,907	1	-
Utilities	6,871	6,413	(458)	(6.7) %
Maintenance	9,231	8,174	(1,057)	(11.5) %
Equipment and systems	891	570	(321)	(36.0) %
Materials and supplies	413	344	(69)	(16.7) %
Insurance	1,166	1,066	(100)	(8.6) %
Employee development and support	990	1,041	51	5.1 %
Business development	2,033	2,275	242	11.9 %
Equipment rentals and repairs	1,271	1,327	56	4.4 %
Total operating expenses before depreciation and amortization	117,288	117,841	553	0.5 %
Depreciation and amortization	42,424	49,138	6,714	15.8 %
<b>Total operating expenses</b>	<b>\$ 159,712</b>	<b>\$ 166,979</b>	<b>\$ 7,267</b>	<b>4.5 %</b>

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Salaries and benefits	\$ 34,741	\$ 35,386	\$ 645	1.9 %
Contractual services	27,465	27,999	534	1.9 %
Safety and security	19,930	20,131	201	1.0 %
Space rental	10,888	10,906	18	0.2 %
Utilities	6,912	6,871	(41)	(0.6) %
Maintenance	8,002	9,231	1,229	15.4 %
Equipment and systems	678	891	213	31.4 %
Materials and supplies	641	413	(228)	(35.6) %
Insurance	1,096	1,166	70	6.4 %
Employee development and support	1,030	990	(40)	(3.9) %
Business development	2,509	2,033	(476)	(19.0) %
Equipment rentals and repairs	1,387	1,271	(116)	(8.4) %
Total operating expenses before depreciation and amortization	115,279	117,288	2,009	1.7 %
Depreciation and amortization	38,196	42,424	4,228	11.1 %
<b>Total operating expenses</b>	<b>\$ 153,475</b>	<b>\$ 159,712</b>	<b>\$ 6,237</b>	<b>4.1 %</b>





**Operating Expenses (Continued)**

Fiscal year 2011 compared to 2010: Fiscal year 2011 operating expenses before depreciation and amortization expense are only slightly higher, growing \$553 thousand, 0.5 percent, from \$117.3 million to \$117.8 million, when compared to 2010. Contributing to this increase are the following: increased salaries and benefits expense, \$2.9 million, primarily due to increased costs of medical and retirement benefits; increased security and safety by \$1.2 million due to utilization of emergency services reflecting the increased costs of salaries and benefits; and business development by \$242 thousand, due to marketing and promotions for the new British Airways daily international flight.

The small 2011 increase was due to continued cost containment and was also reflected by decreased contractual services by \$1.9 million, primarily due to decreased consultants for airport planning; decreased utilities by \$458 thousand due to implementation of energy and efficiency modifications to existing equipment; decreased maintenance by \$1.1 million due to decreased elevator and escalators expenses; equipment and systems decreased by \$321 thousand due to replacement schedule of computers and small equipment replaced in 2010; and insurance expense decreased by \$100 thousand, due to negotiated premium savings.

Total operating expenses increased \$7.3 million from \$159.7 million to \$166.9 million, or 4.5 percent, primarily due to depreciation and amortization expense of \$6.7 million. In fiscal year 2011, \$51.3 million of capital projects were completed and placed in service. They consisted of \$32 million in Taxiway C improvements, \$5 million in airfield signs, \$4 million in parking improvements, \$2 million in roadway access improvements, \$1 million in waterline fire suppression improvements, and many smaller projects.

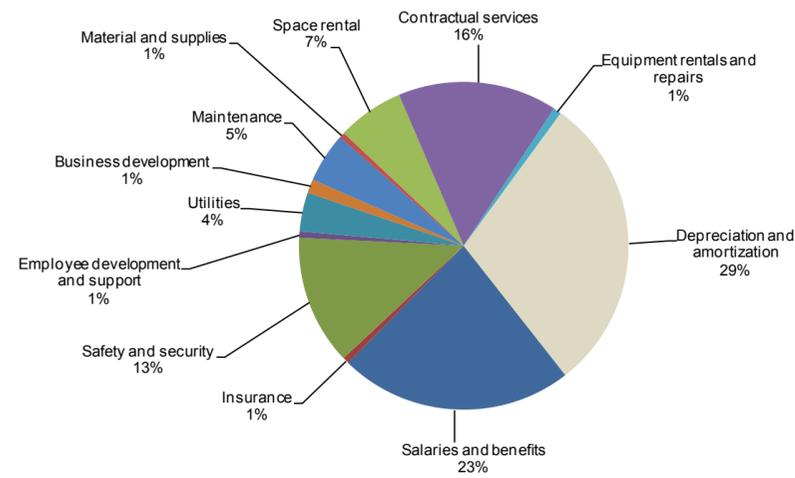
Fiscal year 2010 compared to 2009: Fiscal year 2010 operating expenses before depreciation and amortization expense are only slightly higher, growing \$2.0 million, or 1.7 percent, from \$115 million to \$117 million, when compared to 2009. Contributing to this increase are the following; increased salaries and benefits expense, \$645 thousand, primarily due to increase costs of medical and retirement benefits, (the continued hiring freeze contributes to a lower increased variance); increased contractual services, \$534 thousand, primarily due to a new Federal Acquisition Regulation 150 study to map qualified homeowners as candidates for the Quieter Home Program; increased security and safety by \$201 thousand, due to the required utilization of the Port Authority Harbor Police reflecting the increased costs of their salaries and benefits; increased maintenance expenses by \$1.2 million, due to increased maintenance of escalators, elevators, air conditioning system and pavement restriping; increased equipment and systems, \$213 thousand, due to replacement of small computer equipment and servers.

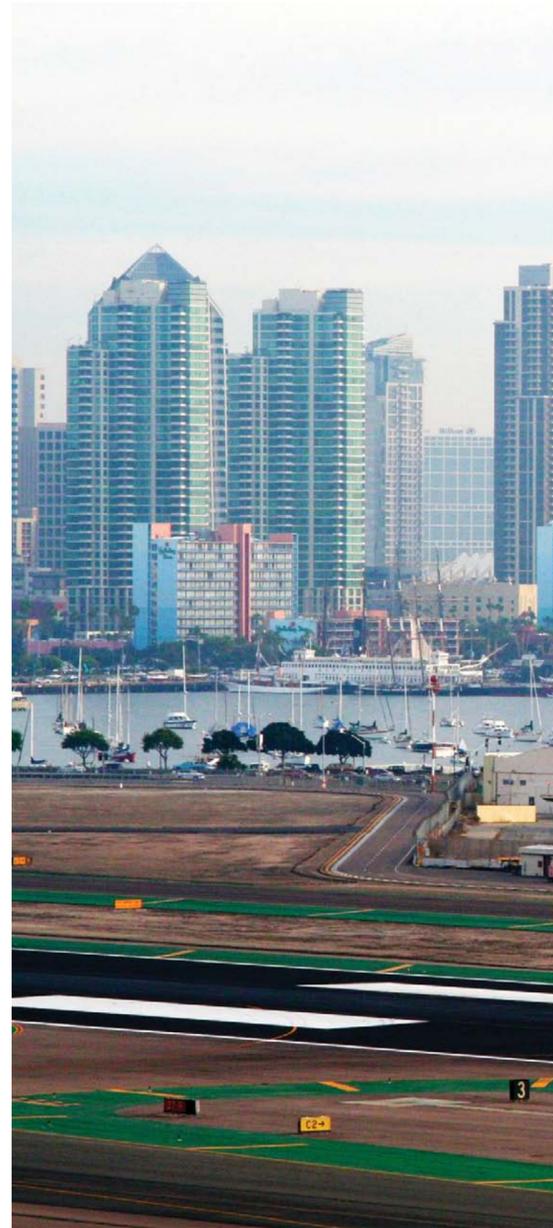
The small 2010 increase was due to continued cost containment and was also reflected by decreased materials and supplies expense by \$228 thousand, and business development expense by \$476 thousand, resulted from decreased travel and recovery of bad debt; as well as, decreased equipment rentals and repairs by \$116 thousand, primarily due to decreased costs of tenant leasehold improvements.

Total operating expenses increased \$6.2 million from \$153.5 million to \$159.7 million, or 4.1 percent, primarily due to depreciation and amortization expense of \$4.2 million. In fiscal year 2010, \$48 million of capital projects were completed and placed in service. They consisted of \$6 million in Terminal 1 electrical upgrades, \$7 million in security improvements, \$6 million in replacement of escalators, \$4 million in software for the engineering department, \$3.4 million in renovation and build out of offices, \$1 million, airport terminal EVIDS (Electronic Visual Information Display System), and many smaller projects.

**Operating Expenses (Continued)**

**San Diego County Regional Airport Authority Fiscal Year Ended June 30, 2011  
Operating Expenses**



**Nonoperating Revenues and Expenses (in thousands)**

	FY 2010	FY 2011	From 2010 to 2011	
			Increase (Decrease)	% Change
Passenger facility charge	\$ 34,049	\$ 33,998	\$ (51)	(0.1) %
Customer facility charge	10,783	10,986	203	2.0 %
Quieter Home Program, net	(1,629)	(3,359)	(1,730)	(106.2) %
Joint Studies Program	(245)	(129)	116	47.7 %
Interest income	6,667	10,100	3,433	51.4 %
Interest expense	(2,684)	(8,084)	(5,400)	51.5 %
Other nonoperating income (expenses)	(1,004)	(93)	911	(90.8) %
Nonoperating revenues, net	\$ 45,937	\$ 43,419	\$ (2,518)	5.5 %

	FY 2009	FY 2010	From 2009 to 2010	
			Increase (Decrease)	% Change
Passenger facility charge	\$ 33,219	\$ 34,049	\$ 830	2.5 %
Customer facility charge	1,695	10,783	9,088	536.1 %
Quieter Home Program, net	(5,574)	(1,629)	3,945	70.8 %
Joint Studies Program	(179)	(245)	(66)	(36.9) %
Interest income	9,434	6,667	(2,767)	(29.3) %
Interest expense	(2,998)	(2,684)	314	10.5 %
Other nonoperating income (expenses)	316	(1,004)	(1,320)	423.8 %
Nonoperating revenues, net	\$ 35,913	\$ 45,937	\$ 10,024	27.9 %

**Passenger Facility Charges (PFCs)** were established by Congress in 1990 as part of the Aviation Safety and Capacity Expansion Act of 1990. The Authority collects a \$4.50 PFC from revenue enplaned passengers to pay for the cost to design and construct eligible Airport capital projects or to repay debt service issued to build such projects. PFCs are collected by the air carriers when passengers purchase their tickets and are remitted to the Authority the month following collection less a \$0.11 administration fee.

**Customer Facility Charges (CFCs)** in May, 2009 the Authority began collecting a \$10 per contract CFC on rental cars, which fees are authorized under Section 1936 of the California Civil Code and approved by legislation under Senate Bill 1510. The revenues collected will be used to plan and construct a consolidated rental car facility and improved transportation system. The rental car agencies remit to the Authority collection of the fee monthly.

**Quieter Home Program** includes sound attenuation construction improvements at all eligible single-family and multifamily dwellings with six or fewer units located in the Year 2000 65 dB Community Noise Equivalent Level contour. The project is eligible for the Airport Improvement Program (AIP). From inception to June 30, 2011, the Airport Authority has spent \$119.4 million and received reimbursement for \$96.2 million.

**Interest income** is derived from interest earned by the Airport Authority on investments, commercial paper reserves, bond reserves, Build America Bond rebates on 2010 Series C bond and notes receivable from the District.

**Nonoperating Revenues and Expenses (Continued)**

**Interest expense** includes interest paid and accrued on the 2005 and 2010 Series Bonds and Commercial Paper Series A, B and C.

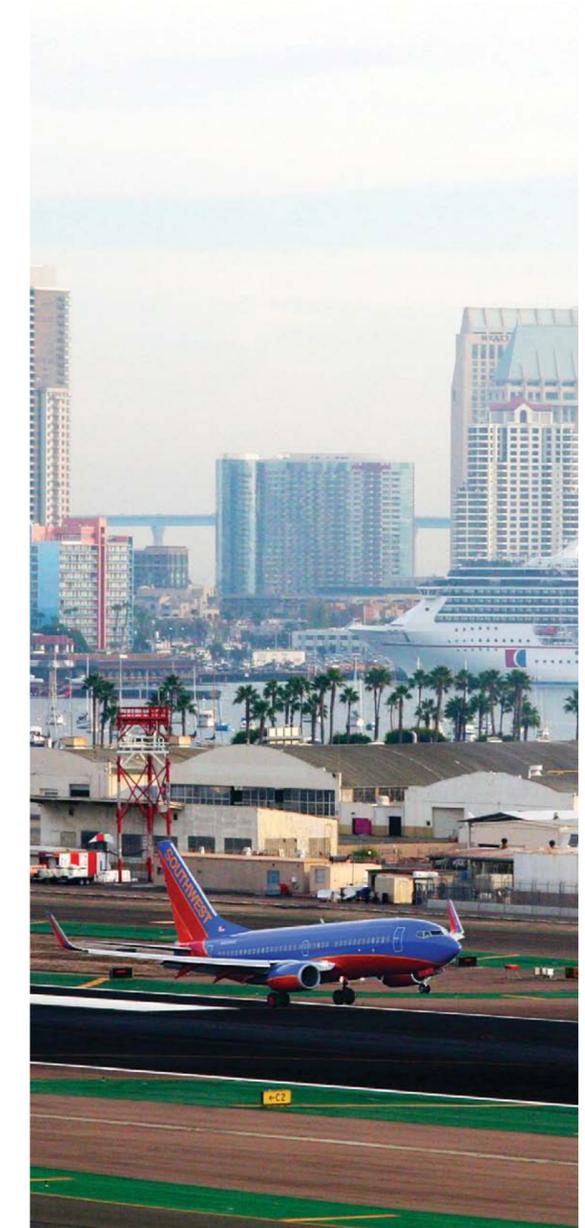
**Other nonoperating income (expense)** includes proceeds and expenses for legal settlements, gain (loss) on the sale of fixed assets, unrealized gain (loss) on investments, and other miscellaneous revenue and expenses.

**Capital Grant Contributions**

The Airport Authority receives Airport Improvement Program (AIP) entitlement and discretionary grants through the Federal Aviation Administration (FAA) and other Federal and state organizations. These funds are recognized as revenue as the work is completed on the eligible projects. Variances relate to the amount of work completed on eligible projects during the fiscal year.

Fiscal year 2011 compared to 2010: Nonoperating revenue (net) decreased by \$2.5 million, or 5.5 percent. This is primarily due to the Quieter Home Program which decreased \$1.7 million, due to the timing of when invoices were paid to become eligible for FAA grant reimbursement. Interest expense increased \$5.4 million, due to the \$573 million 2010 bond issuance in October, 2010. Offsetting the decrease was the \$203 thousand increase in CFCs, \$116 thousand decrease in Joint studies, \$3.4 million increase in interest income on Build American bonds rebate on the 2010 Series B bonds issued October, 2010, and \$911 thousand increase in other nonoperating expenses.

Fiscal year 2010 compared to 2009: Nonoperating revenue (net) increased by \$10.0 million, or 27.9 percent. This is primarily due to the \$9.1 million of collection of CFCs, which began May, 2009. PFCs have slightly increased by \$830 thousand, due to the timing of when passengers book their flights, compared to the overall reduction of enplanements, at 1.2 percent. The Quieter Home Program increased \$3.9 million as a result of an expanded program and the timing of when invoices were paid to become eligible for FAA grant reimbursement. Interest income decreased \$2.8 million, primarily due to decreased rate of return on invested funds and interest expense decreased \$315 thousand, due to lower interest rates and despite a larger outstanding commercial paper balance. Other nonoperating expenses compared to 2009 increased \$1.3 million due to unrealized losses on market value of investments.





#### Assets, Liabilities and Net Assets

The balance sheets present the financial position of the Airport Authority at June 30, 2009, 2010 and 2011. The statements include all assets, liabilities and net assets of the Airport Authority. A summary comparison of the Airport Authority's assets, liabilities and net assets at June 30, 2009, 2010, and 2011 is as follows:

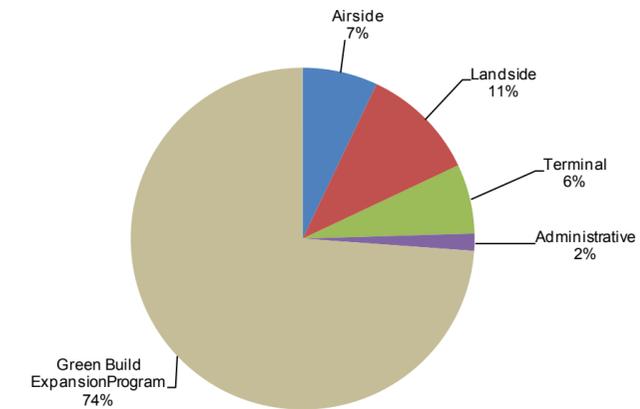
(in thousands)	FY2009	FY2010	FY2011
<b>Assets</b>			
Current assets	\$ 78,954	\$ 128,219	\$ 110,397
Capital assets, net	380,549	483,717	625,421
Noncurrent assets	231,716	212,207	610,823
<b>Total assets</b>	<b>\$ 691,219</b>	<b>\$ 824,143</b>	<b>\$ 1,346,641</b>
<b>Liabilities</b>			
Current liabilities	\$ 47,029	\$ 56,219	\$ 82,149
Long-term liabilities	131,007	207,472	657,238
Total liabilities	178,036	263,691	739,387
<b>Net Assets</b>			
Invested in capital assets, net of related debt	249,498	275,556	357,275
Bond reserves, unapplied PFCs and other restricted	167,827	139,672	147,513
Unrestricted	95,858	145,224	102,466
<b>Total net assets</b>	<b>513,183</b>	<b>560,452</b>	<b>607,254</b>
<b>Total liabilities and net assets</b>	<b>\$ 691,219</b>	<b>\$ 824,143</b>	<b>\$ 1,346,641</b>

As of June 30, 2011, the Airport Authority's assets exceeded liabilities by \$607 million, a \$47 million increase over June 30, 2010 and comparing 2010 to 2009, another \$47 million increase over June 30, 2009. The largest portion of the Airport Authority's net assets represents its investment in capital assets, less the amount of associated debt outstanding. The Airport Authority uses these capital assets to provide services to its passengers and other users of SDIA; consequently, these assets cannot be sold or otherwise liquidated. Although the Airport Authority's investment in its capital assets is reported net of related debt, it is noted that the funds required to repay this debt must be provided annually from operations. The remaining unrestricted net assets of \$102 million as of June 30, 2011, \$145 million as of 2010 and \$96 million as of 2009, may be used to meet any of the Airport Authority's ongoing obligations. As of June 30, 2011, 2010, and 2009 management has designated unrestricted funds in the amount of \$16 million, \$21 million and \$6 million, respectively, for capital contract commitments funded by Airport Authority cash, earthquake insurance and unspent commercial paper for capital projects. In addition, as of fiscal years ended 2011, 2010, and 2009, management has designated unrestricted net assets of \$8 million, \$6 million and \$5 million respectively for operating and insurance contingencies.

#### Capital Asset and Capital Improvement Program

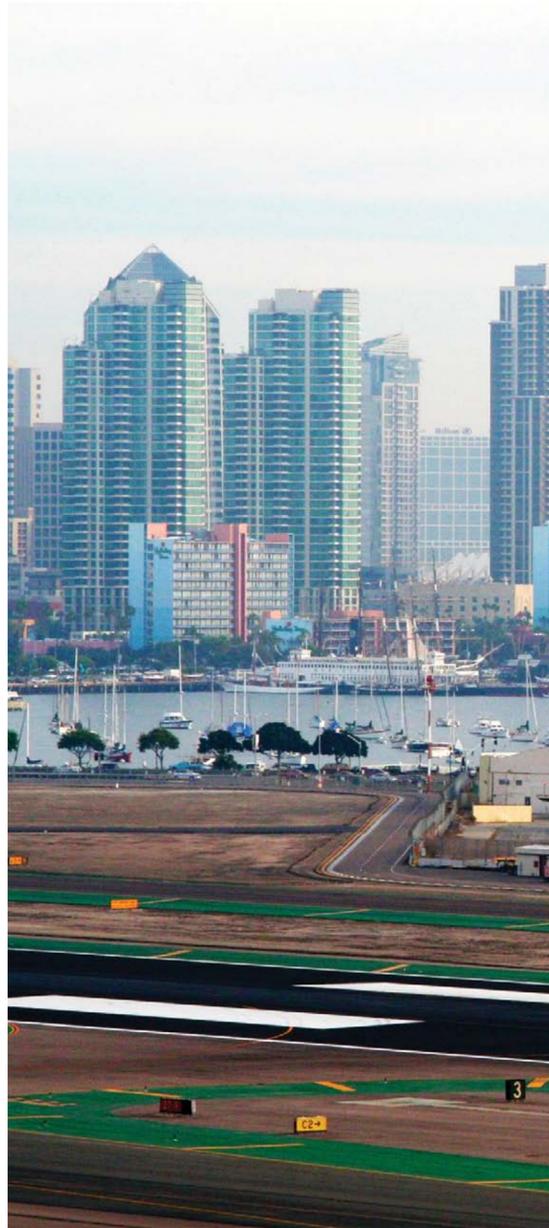
The funds used for capital improvements or to expand SDIA's facilities are derived from several sources, including the FAA, Transportation Security Administration or TSA and AIP grants, PFCs, CFCs, debt and SDIA funds. In fiscal year 2011, SDIA's \$1.2 billion capital improvement program (CIP) was funded under two debt options. A pay-as-you-go approach utilizing commercial paper program, for short-term funding needs and long term funding needs included 2010 Airport Revenue Bonds to be used for the \$864 million Terminal Development Program/ "The Green Build." The Green Build is projected to be completed by 2013. The current CIP, which includes projects through 2015, consists of \$156 million for airside projects, \$74.4 million for landside projects, \$120 million for terminal projects, and \$26 million for administrative projects. The current SDIA CIP does not include noise reduction, and related projects.

Capital Improvement Program (CIP) Projects by Type



Among the larger projects undertaken during fiscal year 2011 was the Taxiway C improvements, \$32 million, to expand the taxiway in compliance with FAA requirements.

Additional information of the Airport Authority's capital assets can be found in Note 4 to the financial statements on pages 39-40 of this report.



### Capital Financing and Debt Management

In October 2005, the Airport Authority sold \$56.3 million of San Diego County Regional Airport Authority Airport Revenue Refunding Bonds Series 2005. This refunded the outstanding Series 1995 Airport revenue bonds that were issued by the District in 1995 through the California Maritime Infrastructure Authority for the expansion of Terminal 2. The Series 2005 Bonds were issued in the aggregate principal amount of \$56.3 million and were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent maturing in fiscal years 2007 to 2021. Interest on the bonds is payable semiannually on January 1 and July 1 of each year.

The Series 2005 Bonds are payable solely from and secured by "Pledged Revenues." Pledged Revenues are defined as all revenues and other cash receipts of the Airport Authority's airport operations, reduced by operation and maintenance expenses. Pledged Revenues do not include cash received from Passenger Facility Charges, PFCs, or federal grants.

The Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce Pledged Revenues of at least 125 percent of debt service for that year.

As of June 30, 2011, \$41.2 million in bonds were outstanding. The ratings of the Series 2005 Bonds as of June 30, 2011 and 2010, are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively. Additionally, the Airport Authority holds a fully funded debt service reserve equal to one year's annual debt service.

On October 5, 2010, the Airport Authority issued \$572.6 million of Series A, B and C subordinate airport revenue bonds. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142.2 million of the Airport Authority's outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series A and B bonds were structured as serial bonds that bear interest at rates ranging from 2 percent to 5 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U. S. Treasury equal to 35 percent of interest payable. The interest rate on the Series C bonds, net of subsidy, is 4.31 percent and the bonds mature in fiscal year 2041.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the Passenger Facility Charges, PFCs, it has received and expects to receive through 2016. The amounts of irrevocably committed PFCs are \$14.7 million, for fiscal year 2013, and \$19 million annually for fiscal years 2014 through 2016. As of June 30, 2011, the principal balance on the subordinate Series 2010 Bonds was \$572.6 million.

As of June 30, 2011, \$21.5 million in commercial paper was outstanding. The commercial paper program was established in 1997 to fund the then-approved CIP and related Terminal 2 expansion projects. The Airport Authority's outstanding commercial paper, Series A (non AMT), Series B (AMT) and Series C (taxable) is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing the payment of the Series 2005 Bonds. The authorized program provides for borrowings up to \$250 million through September 1, 2027. Each commercial paper note matures at the end of a period not to exceed 270 days and can be continually rolled into another issuance until the earlier of September 10, 2014, or five days prior to the date. At that time, the total outstanding principal becomes due. The commercial paper notes require that the charges for services be set each year at rates sufficient to produce Pledged Revenues of at least 1.10 times the debt service on subordinate obligations, including the commercial paper notes, for that year.

Each series of notes are additionally secured by an irrevocable letter of credit issued by Lloyds TSB Bank plc and is rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service. The letter of credit expires on September 10, 2014. Interest on the notes is paid at a rate based on the market for similar commercial paper notes.

Additional information of the Airport Authority's long-term debt can be found in Note 5 to the financial statements on pages 41-45 of this report.

The SDIA's PFC program was established in 1994, and currently authorizes the imposition of a \$4.50 fee on enplaning passengers. There are currently four active applications which provide collection authority through October 2036. A ninth application is expected to be approved January 2012.

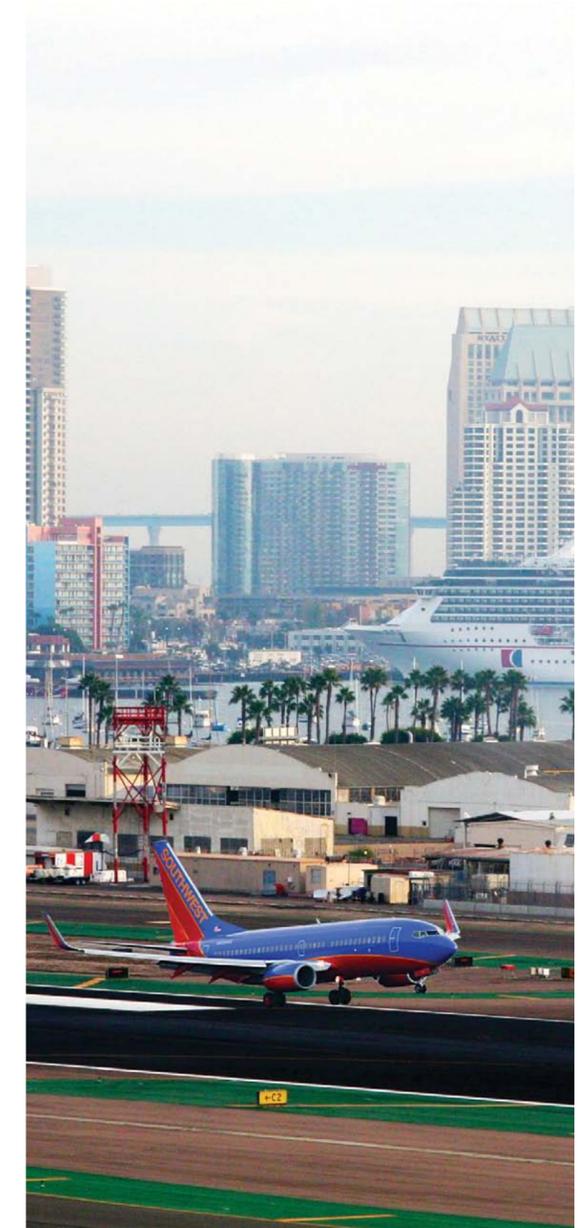
FAA entitlement and discretionary grants are awarded on a federal fiscal year running October 1 through September 30. The Airport Authority has received approximately \$10.1 million in grant awards for the federal fiscal year ended September 30, 2011, and \$51.6 million in 2010. Grant awards are recognized as income/contributions as eligible expenses are incurred.

### REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Airport Authority's finances. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Accounting Department, P.O. Box 82776, San Diego, CA 92138. The Accounting Department can also be reached at (619) 400-2807. A copy of the financial report is available at [www.san.org](http://www.san.org).

Thella F. Bowens  
Chief Executive Officer/President

Vernon D. Evans  
Chief Financial Officer/  
Vice President of Finance/Treasurer





## Basic Financial Statements:

### Balance Sheets June 30, 2011 and 2010

Assets	2011	2010
<b>Current Assets</b>		
Unrestricted:		
Cash and cash equivalents (Note 2)	\$ 45,858,618	\$ 30,192,220
Investments (Note 2)	43,680,088	74,853,720
Tenant lease receivables, net of allowance of 2011 \$14,918 and 2010 \$59,341	5,593,539	6,133,899
Grants receivable	3,984,567	3,866,272
Notes receivable, current portion (Note 3)	1,696,413	1,612,790
Other current assets	5,272,763	7,318,364
<b>Total unrestricted current assets</b>	<b>106,085,988</b>	<b>123,977,265</b>
Restricted cash and cash equivalents with Trustee (Notes 2 and 5)	4,311,160	4,241,638
<b>Total current assets</b>	<b>110,397,148</b>	<b>128,218,903</b>
<b>Noncurrent Assets</b>		
Capital assets (Note 4):		
Land, land improvements and nondepreciable assets	24,901,120	23,874,208
Buildings and structures	466,463,764	462,867,893
Machinery and equipment	46,246,697	45,211,831
Runways, roads and parking lots	273,449,104	227,870,261
Construction in progress	322,289,133	183,013,695
	1,133,349,818	942,837,888
Less accumulated depreciation	(507,928,798)	(459,120,465)
<b>Capital assets, net</b>	<b>625,421,020</b>	<b>483,717,423</b>
Restricted assets (Notes 2 and 5):		
Restricted cash, cash equivalents and investments, not with Trustee	124,954,885	118,507,384
Restricted investments with Trustee	392,604,561	5,394,063
Passenger facility charges receivable	5,121,210	5,015,518
Customer facility charges receivable	1,029,040	1,235,660
Other restricted assets	6,239,213	6,400,000
<b>Total restricted assets</b>	<b>529,948,909</b>	<b>136,552,625</b>
Investments, noncurrent (Note 2)	16,827,172	950,564
Notes receivable, long-term portion (Note 3)	42,914,061	44,610,475
Cash and investments designated for specific capital projects and other commitments (Notes 2 and 12)	8,148,558	20,895,687
Deferred costs, bonds, net	4,998,888	788,084
Net pension asset and net OPEB asset (Notes 6 and 8)	7,760,767	8,409,409
Workers' comp security deposits	225,000	
	80,874,446	75,654,219
<b>Total noncurrent assets</b>	<b>1,236,244,375</b>	<b>695,924,267</b>
<b>Total assets</b>	<b>\$ 1,346,641,523</b>	<b>\$ 824,143,170</b>

See Notes to Financial Statements.

### Balance Sheets June 30, 2011 and 2010

Liabilities and Net Assets	2011	2010
<b>Current Liabilities</b>		
Payable from unrestricted assets:		
Accounts payable	\$ 29,007,175	\$ 4,444,312
Accrued liabilities (Note 8)	28,695,759	44,795,725
Compensated absences, current portion (Note 5)	2,188,755	2,133,766
Deposits and other current liabilities	505,513	562,068
<b>Total payable from unrestricted assets</b>	<b>60,397,202</b>	<b>51,935,871</b>
Payable from restricted assets:		
Current portion of Series 2010 and 2005 Bonds and commercial paper (Note 5)	4,760,000	3,105,000
Accrued interest on bonds and commercial paper (Note 5)	16,992,426	1,178,102
<b>Total payable from restricted assets</b>	<b>21,752,426</b>	<b>4,283,102</b>
<b>Total current liabilities</b>	<b>82,149,628</b>	<b>56,218,973</b>
<b>Noncurrent Liabilities</b>		
Deferred rent liability (Note 11)	-	450,073
Compensated absences, net of current portion (Note 5)	484,683	397,836
Tenant security deposits and other noncurrent liabilities	1,170,513	1,014,896
Commercial paper notes payable (Note 5)	20,729,000	164,430,000
Series 2010 and 2005 Bonds and bond premium, less current portion, net of deferred refunding costs (Note 5)	634,853,456	41,178,973
<b>Total noncurrent liabilities</b>	<b>657,237,652</b>	<b>207,471,778</b>
<b>Total liabilities</b>	<b>739,387,280</b>	<b>263,690,751</b>
<b>Commitments and Contingencies (Notes 6, 7, 8, 9, 10, 11 and 12)</b>		
<b>Net Assets</b>		
Invested in capital assets, net of related debt (Note 1)	357,275,035	275,556,504
Restricted net assets:		
Bond reserves	50,493,766	51,103,386
Debt service, bond and commercial paper	4,835,970	3,181,539
Small business bond guarantee	4,000,000	4,000,000
Passenger facility charges	59,940,505	62,910,055
Customer facility charges	22,003,359	12,077,045
OCIP loss reserve	6,239,213	6,400,000
<b>Total restricted net assets (Note 1)</b>	<b>147,512,813</b>	<b>139,672,025</b>
Unrestricted net assets	102,466,395	145,223,890
<b>Total net assets</b>	<b>607,254,243</b>	<b>560,452,419</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,346,641,523</b>	<b>\$ 824,143,170</b>

See Notes to Financial Statements.





**Statements of Revenues, Expenses and Change in Net Assets  
Years Ended June 30, 2011 and 2010**

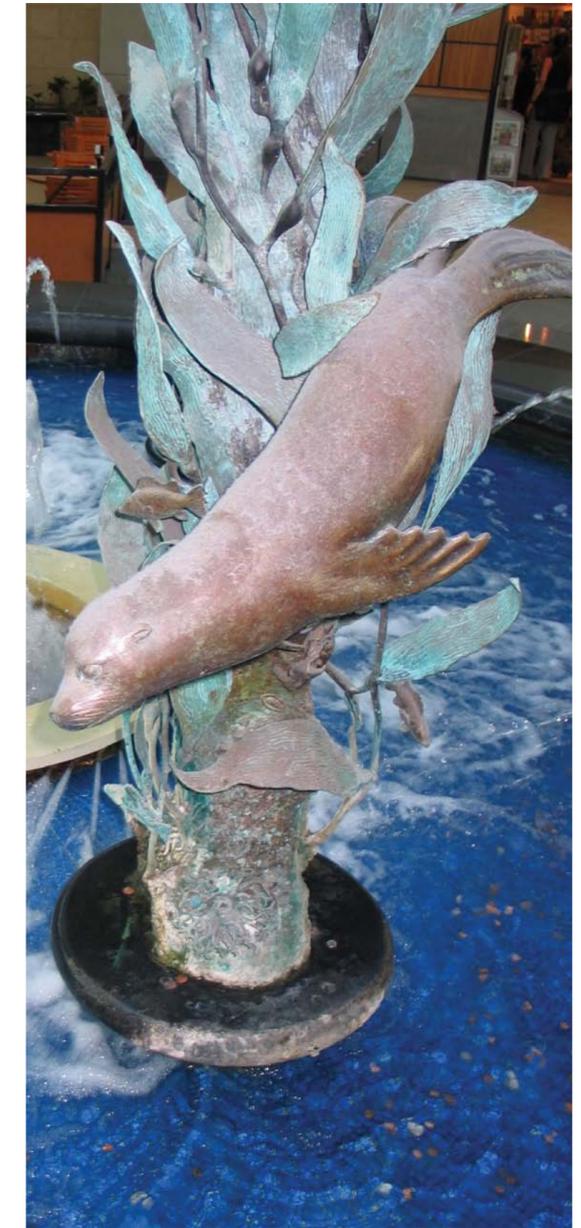
	2011	2010
Operating revenues:		
Airline revenue:		
Landing fees	\$ 18,578,574	\$ 18,672,255
Aircraft parking fees	2,920,891	3,406,011
Building rentals (Note 10)	26,980,351	23,835,039
Security surcharge	14,886,586	11,900,070
Other aviation revenue	1,596,665	1,584,408
Concession revenue	37,103,485	36,248,999
Parking and ground transportation revenue	31,644,673	30,295,843
Ground rentals (Note 10)	8,656,005	5,923,301
Other operating revenue	1,639,621	1,828,757
<b>Total operating revenues</b>	<b>144,006,851</b>	<b>133,694,683</b>
Operating expenses:		
Salaries and benefits (Notes 6, 7 and 8)	38,266,477	35,386,258
Contractual services (Note 12)	26,112,942	27,998,903
Safety and security	21,343,967	20,131,013
Space rental (Note 11)	10,906,405	10,905,899
Utilities	6,413,206	6,871,136
Maintenance	8,174,021	9,230,943
Equipment and systems	570,394	890,964
Materials and supplies	344,471	412,911
Insurance	1,066,326	1,166,209
Employee development and support	1,040,787	990,129
Business development	2,275,311	2,032,861
Equipment rentals and repairs	1,327,158	1,270,944
<b>Total operating expenses before depreciation and amortization</b>	<b>117,841,465</b>	<b>117,288,170</b>
<b>Income from operations before depreciation and amortization</b>	<b>26,165,386</b>	<b>16,406,513</b>
Depreciation and amortization	49,137,886	42,424,317
<b>Operating (loss)</b>	<b>(22,972,500)</b>	<b>(26,017,804)</b>

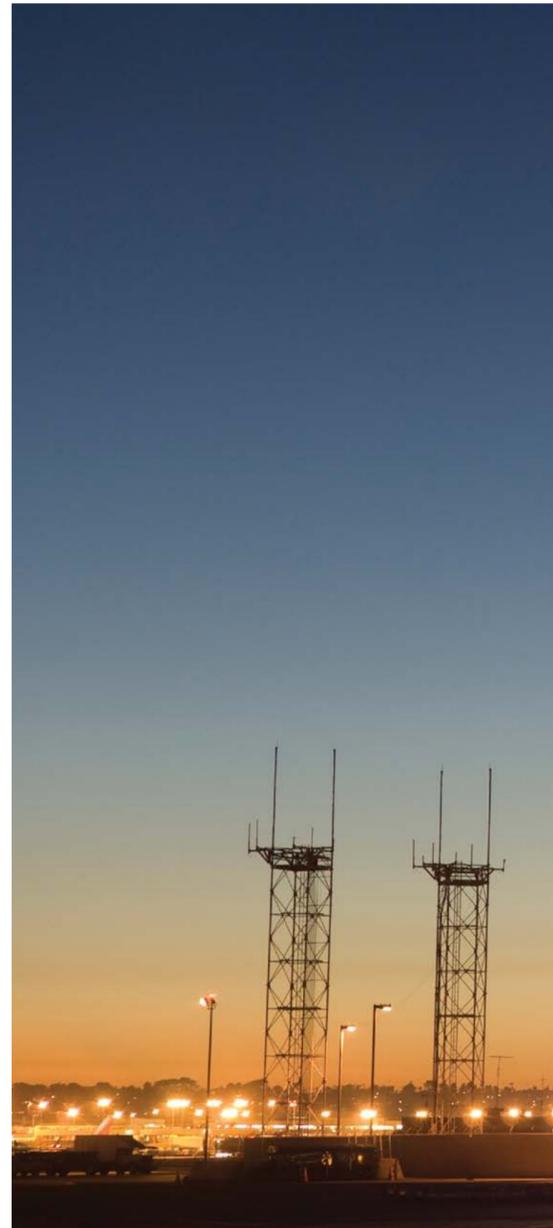
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**Statements of Revenues, Expenses and Change in Net Assets (Continued)  
Years Ended June 30, 2011 and 2010**

	2011	2010
Nonoperating revenues (expenses):		
Passenger facility charges	\$ 33,997,963	\$ 34,048,981
Customer facility charges	10,986,467	10,782,512
Quieter Home Program grant revenue	14,411,926	18,998,445
Quieter Home Program expenses	(17,770,495)	(20,627,644)
Joint Studies Program	(129,191)	(244,243)
Interest income	6,408,130	6,666,720
Interest expense (Note 5)	(8,084,334)	(2,683,595)
"Build America Bonds" Rebate	3,691,431	-
Other (expenses), net	(92,924)	(1,003,948)
<b>Nonoperating revenue, net</b>	<b>43,418,973</b>	<b>45,937,228</b>
<b>Income before capital grant contributions</b>	<b>20,446,473</b>	<b>19,919,424</b>
Capital grant contributions	26,355,351	27,350,431
<b>Change in net assets</b>	<b>46,801,824</b>	<b>47,269,855</b>
Net assets, beginning of year	560,452,419	513,182,564
Net assets, end of year	<b>\$ 607,254,243</b>	<b>\$ 560,452,419</b>

See Notes to Financial Statements.





**Statements of Cash Flows**  
Years Ended June 30, 2011 and 2010

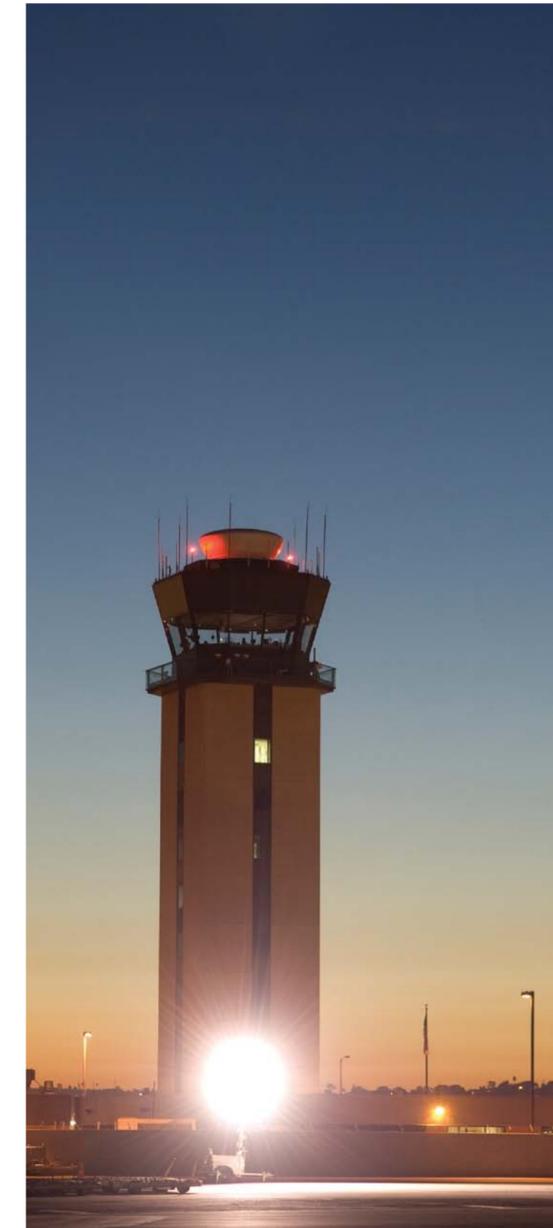
	2011	2010
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	\$ 146,473,362	\$ 131,978,851
Payments to suppliers	(80,454,483)	(90,872,611)
Payments to employees	(36,728,904)	(35,231,569)
Pension contribution	-	(4,600,000)
Other receipts (payments)	(50,815)	346,810
<b>Net cash provided by operating activities</b>	<b>29,239,160</b>	<b>1,621,481</b>
<b>Cash Flows From Noncapital Financing Activities</b>		
Settlement receipts	101,477	716,580
Quieter Home Program grant receipts	14,781,355	19,430,088
Quieter Home Program payments	(18,102,591)	(21,868,009)
Joint Studies Program payments	(84,068)	(191,865)
<b>Net cash (used in) noncapital financing activities</b>	<b>(3,303,827)</b>	<b>(1,913,206)</b>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Capital outlay	(166,861,753)	(133,158,619)
Proceeds on BABs	3,691,431	-
Proceeds (payments) on sale of capital assets	3,820	(10,921)
Federal grants received (excluding Quieter Home Program)	25,867,627	26,207,830
Proceeds from passenger facility charges	33,892,271	33,974,761
Proceeds from customer facility charge	11,193,087	10,581,258
Proceeds from issuance of commercial paper	-	80,000,000
Proceeds from issuance of bonds	598,719,344	-
Payment of principal on bonds and commercial paper	(146,026,000)	(2,950,000)
Payment to Trustee for debt service	(82,375)	(81,250)
Interest and debt fees paid	(8,154,709)	(2,802,532)
Cost of debt issuance	(4,424,462)	-
<b>Net cash provided by capital and related financing activities</b>	<b>347,818,281</b>	<b>11,760,527</b>
<b>Cash Flows From Investing Activities</b>		
Sales of investments	24,342,907	46,581,401
Purchases of investments	(402,840,092)	(37,871,306)
Interest received on investments	1,680,735	2,816,795
Principal payments received on notes receivable	1,612,791	1,527,581
Interest received from notes receivable, commercial paper and bonds	4,369,314	3,797,890
<b>Net cash provided by (used in) investing activities</b>	<b>(370,834,345)</b>	<b>16,852,361</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,919,269</b>	<b>28,321,163</b>
Cash and Cash Equivalents, beginning of year	51,087,907	22,766,744
<b>Cash and Cash Equivalents, end of year</b>	<b>\$ 54,007,176</b>	<b>\$ 51,087,907</b>

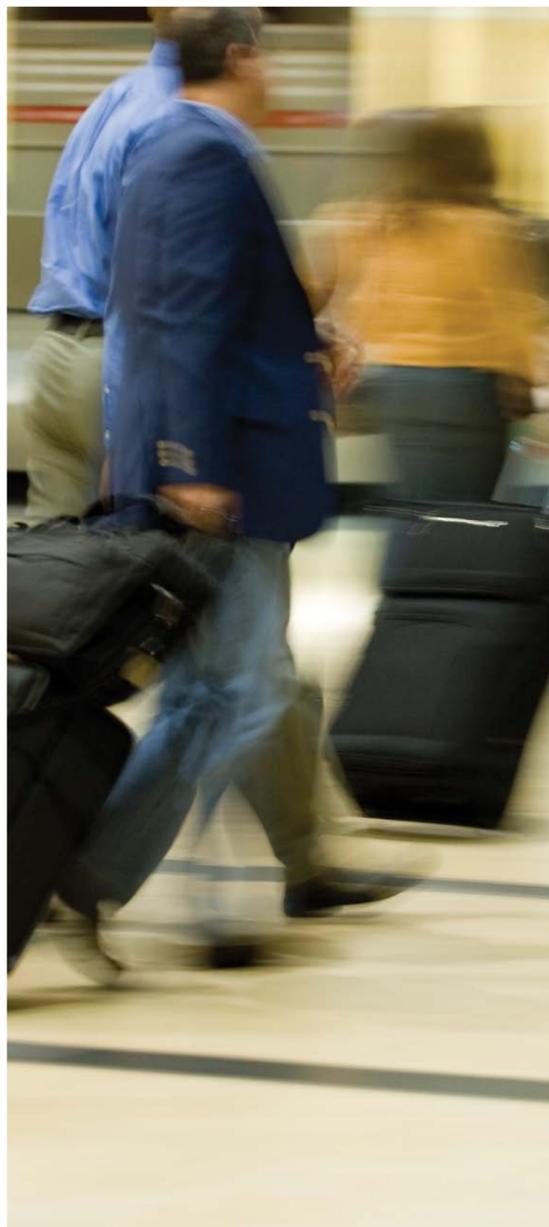
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**Statements of Cash Flows (Continued)**  
Years Ended June 30, 2011 and 2010

	2011	2010
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 45,858,618	\$ 30,192,220
Cash and investments designated for specific capital projects and other commitments	8,148,558	20,895,687
	<b>\$ 54,007,176</b>	<b>\$ 51,087,907</b>
<b>Reconciliation of Operating (Loss) to Net Cash Provided by Operating Activities</b>		
Operating (loss)	\$ (22,972,500)	\$ (26,017,804)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	49,137,886	42,424,317
Bad debt (recapture)	(44,423)	(322,387)
Changes in assets and liabilities:		
Tenant lease receivables	584,783	(297,304)
Net pension asset	556,313	(4,299,243)
Other current assets	2,475,298	(7,360,475)
Accounts payable (on noncapital items)	2,493,492	2,007,086
Accrued liabilities (on noncapital items)	(2,694,519)	(4,427,175)
Postretirement benefits obligation	31,736	26,374
Deposits	80,450	134,100
Deferred rent liability and other	(587,863)	(249,634)
Tenant security deposits	36,671	57,872
Compensated absences	141,836	(54,246)
<b>Net cash provided by operating activities</b>	<b>\$ 29,239,160</b>	<b>\$ 1,621,481</b>
<b>Supplemental Disclosure of Noncash Investing, Capital and Financing Activities</b>		
Additions (deductions) to capital assets included in accounts payable	\$ (13,118,472)	\$ 12,360,267
Loss on Investments	\$ (292,730)	\$ (869,842)

See Notes to Financial Statements.





## Notes to Financial Statements

### Note 1. Nature of Organization and Summary of Significant Accounting Policies

**Reporting entity:** The San Diego County Regional Airport Authority (the Airport Authority), an autonomous public agency, was established as a result of legislation, Assembly Bill 93 (2001), as modified by Senate Bill 1896 (2002), which together comprise the San Diego County Regional Airport Authority Act (the Act). The Act required, among other things, the transfer of the assets and operations of the San Diego International Airport (SDIA) from the San Diego Unified Port District (the District) to the Airport Authority. Effective January 1, 2003 (inception), the District transferred all airport operations and certain related assets and liabilities to the Airport Authority, pursuant to the Act and the Memorandum of Understanding (MOU) dated as of December 31, 2002, between the Airport Authority and the District, which implemented the Act.

Senate Bill 10, the San Diego County Regional Airport Authority Reform Act, was effective January 1, 2008. Responsibilities of the Airport Authority include, among other things, the operation, maintenance, development, management and regulation of SDIA and its facilities. In addition, the Airport Authority has the responsibility to plan or to expand the existing SDIA. Under one of the requirements of Senate Bill 10, the Airport Authority completed a Regional Aviation Strategic Plan and by December 31, 2013 the Airport Authority will prepare and adopt an Airport Multimodal Accessibility Plan. In addition, the Airport Authority acts as the Airport Land Use Commission within San Diego County.

In accordance with the Codification of Governmental Accounting and Financial Reporting Standards, the basic financial statements include all organizations, agencies, boards, commissions and authorities for which the Airport Authority is financially accountable. The Airport Authority has also considered all other potential organizations for which the nature and significance of their relationships with the Airport Authority are such that exclusion would cause the Airport Authority's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing the majority of an organization's governing body and (1) the ability of the Airport Authority to impose its will on that organization or (2) the potential for that organization to provide specific benefits to, or impose specific financial burdens on, the Airport Authority. Based on these criteria, there are no other organizations or agencies which should be included in these basic financial statements.

**Measurement focus and basis of accounting:** The accounting policies of the Airport Authority conform to accounting principles generally accepted in the United States of America applicable to state and local government agencies, and as such, the Airport Authority is accounted for as a proprietary fund. The basic financial statements presented are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of the change in Airport Authority net assets. Private sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed by the Airport Authority to the extent that those standards do not conflict with or contradict guidance of the GASB. The Airport Authority also has the option of following subsequent private-sector guidance for its activities subject to the same limitation. The Airport Authority has elected to follow the standards set by the GASB, as opposed to subsequently issued private sector guidance.

The financial statements are presented in accordance with GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis— for State and Local Governments*, and related GASB pronouncements.

## Notes to Financial Statements

### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Evaluation of long-lived assets:** The Airport Authority accounts for long-lived assets under GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Airport Authority's capital assets include property, equipment and infrastructure assets. A capital asset is considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstances is outside the normal life cycle of the capital asset. The Airport Authority is required to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Common indicators of impairment include evidence of physical damage where restoration efforts are needed to restore service utility, enactment or approval of laws or regulations setting standards that the capital asset would not be able to meet, technological development or evidence of obsolescence, a change in the manner or expected duration of use of a capital asset or construction stoppage. This Statement requires the Airport Authority to report the effects of capital asset impairments in its financial statements when they occur and to account for insurance recoveries in the same manner. The Airport Authority's management has determined that no impairment of capital assets currently exists.

**Use of estimates:** The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Investments:** Investments in the state and county investment pools are recorded at fair value based upon the Airport Authority's pro rata share of the fair value provided by the state and county investment pools for the entire respective pool. Guaranteed investment contracts are recorded at contract value. All other investments are stated at fair market value based on quoted market prices.

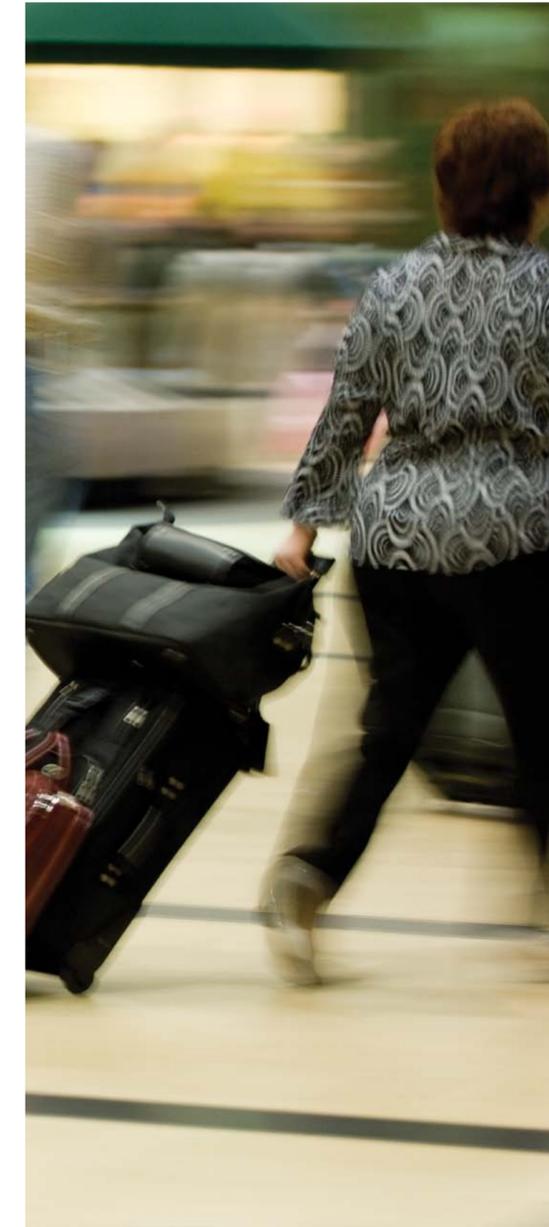
**Tenant lease receivables:** Tenant lease receivables are carried at the original invoice amount for fixed-rent tenants and at estimated invoice amount for concession (variable) tenants, less an estimate made for doubtful receivables for both fixed-rent and concession tenants, based on a review of all outstanding amounts. Management determines the allowance for doubtful accounts by evaluating individual tenant receivables and considering a tenant's financial condition and credit history and current economic conditions. Tenant lease receivables are written off when deemed uncollectible. Recoveries of tenant lease receivables previously written off are recorded when received.

**Restricted assets:** Funds are set aside as restricted, and they are not available for current expenses, when constraints placed on their use are legally enforceable due to either:

- Externally imposed requirements by creditors (such as through debt covenants), grantors or contributors.
- Laws or regulations of other governments.
- Constitutional provisions or enabling legislation.

The Airport Authority's policy is to use restricted resources before unrestricted resources for expenses incurred for which both restricted and unrestricted net assets are available.

**Designated assets:** The Airport Authority's management designates funds for capital projects and other specific commitments; these funds would otherwise be available for operations. At June 30, 2011 and 2010, management had designated funds for specific approved capital projects, unspent commercial paper draws and other commitments totaling \$8,148,558 and \$20,895,687, respectively.





**Notes to Financial Statements**

**Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)**

**Capital assets:** Capital assets are recorded at cost, except for property contributed by third parties, which is recorded at fair market value at the date of contribution, less an allowance for accumulated depreciation. The Airport Authority capitalizes incremental overhead costs and interest cost associated with the construction of capital assets.

Capital assets are defined by the Airport Authority as assets with an initial, individual cost of more than \$5,000 and an initial useful life of one year or greater. Depreciation is computed by use of the straight-line method over the following estimated useful lives:

Land improvements	30 to 40 years
Runways, taxiways, roads and parking areas	5 to 30 years
Buildings, structures and improvements	5 to 30 years
Machinery and equipment	3 to 10 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as construction in process as projects are constructed.

**Net pension asset:** The Airport Authority budgets for a 90 percent funding ratio with respect to its defined pension plan which results in additional contributions to the plan over its annual required contribution (ARC). The difference between the Airport Authority's actual contributions and ARCs results in a net pension asset.

**Airport Improvement Program (AIP):** The District initially received approval from the Federal Aviation Administration (FAA) for Airport Improvement Program (AIP) grants. These grants transferred to the Airport Authority, effective January 1, 2003. AIP grants are authorized and disbursed by the FAA under the Airway Improvement Act of 1982, as amended, which provides funding for airport planning and development projects at airports included in the National Plan of Integrated Airport Systems. As such, the AIP grants must be used to pay for the allowable costs of approved projects. Receipts from federal programs are subject to audit to determine if the funds were used in accordance with the applicable regulations. The Airport Authority believes that no significant liabilities to the Airport Authority would result from such an audit.

**Passenger facility charges (PFC):** The District initially received approval from the FAA to impose a PFC at SDIA. The approval for the PFC was transferred by the FAA to the Airport Authority, effective January 1, 2003. The PFC program is authorized by the Aviation Safety and Capacity Expansion Act of 1990 (the Expansion Act). In accordance with the Expansion Act, the Airport Authority's AIP Passenger Entitlement Apportionment is reduced by certain percentages, dependent upon the level of PFC received by the Airport Authority.

In accordance with the program, the PFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2011 and 2010, accrued PFC receivables totaled \$5,121,210 and \$5,015,518, respectively, and there were \$54,819,295 and \$57,894,537 PFC amounts collected but not yet applied for approved capital projects as of June 30, 2011 and 2010, respectively.

**Notes to Financial Statements**

**Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)**

On May 20, 2003, the FAA approved the Airport Authority's PFC charge per enplaned passenger from \$3.00 to \$4.50, beginning August 1, 2003. Currently, impose and use authority of \$1.3 billion from four active applications allows collection through October 1, 2036. The Airport Authority has formally closed three previously approved applications and withdrawn one pending application which has been integrated in a ninth application to impose and use of approximately \$42 million in PFC revenue. The ninth application is in process with completion anticipated by January 2012. In accordance with the Aviation Investment Reform Act (AIR-21), airports imposing a \$4.50 collection level are required to reduce AIP Passenger Entitlement Apportionment to 75 percent.

**Customer facility charges (CFC):** The Airport Authority received approval in May 2009 from the State of California under Section 1936 of the California Civil Code to impose a \$10 CFC per contract on rental cars at SDIA.

In accordance with the program, the CFC revenue must be used to pay allowable costs for approved capital projects. As of June 30, 2011 and 2010, accrued CFC receivables totaled \$1,029,040 and \$1,235,660, respectively. CFC amounts collected, including interest, but not yet applied for approved capital projects as of June 30, 2011 and 2010 were \$20,974,319 and \$10,841,385, respectively.

**Retentions payable:** The Airport Authority enters into construction contracts that may include retention provisions such that a certain percentage of the contract amount is held for payment until completion of the contract and acceptance by the Airport Authority. The Airport Authority's policy is to record the retention payable only after completion of the work and acceptance of the contractor invoices have occurred. Retentions payable on completed contracts are included with accounts payable on the accompanying balance sheets. Amounts related to unpaid retentions on uncompleted contracts are included in accrued liabilities.

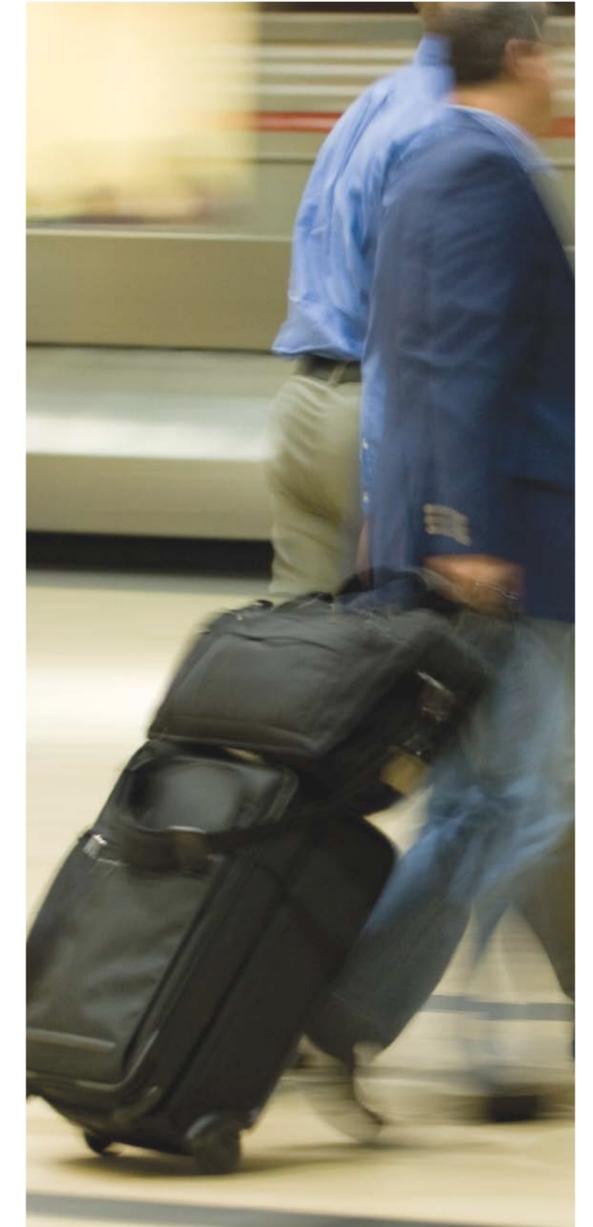
**Compensated absences:** All employees of the Airport Authority earn annual leave that is paid upon termination or retirement. Annual leave is accrued at current rates of compensation.

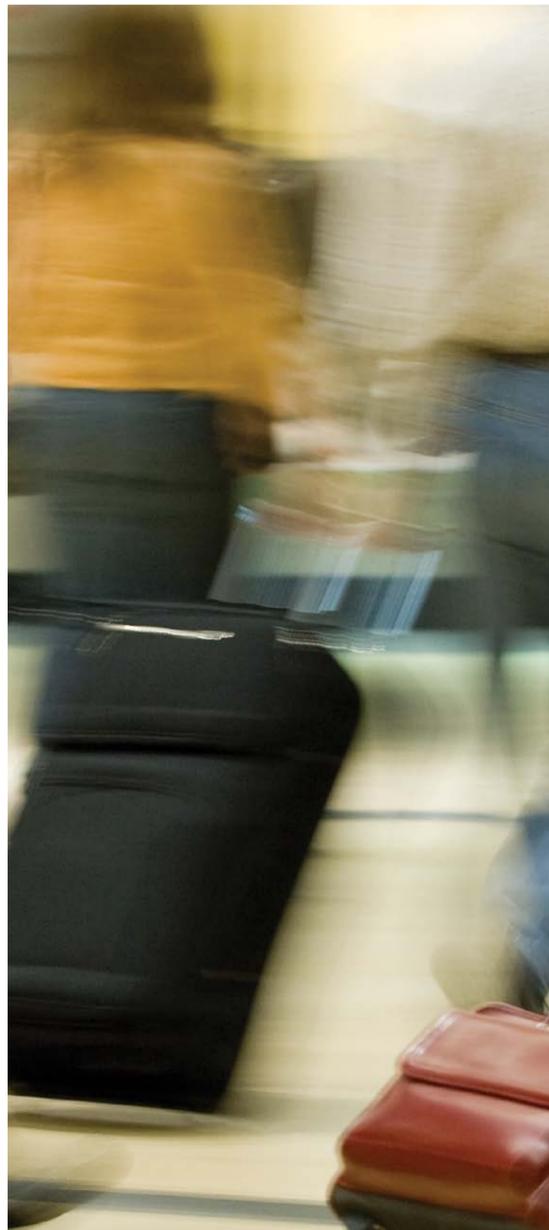
**Airport Authority net assets:** Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Invested in capital assets, net of related debt, excludes unspent debt proceeds.

Restricted net assets represent amounts that are appropriated or legally segregated for a specific purpose. Airport Authority net assets are reported as restricted when there are limitations imposed on its use, either through the enabling legislation adopted by the Airport Authority or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Invested in capital assets, net of related debt, as of June 30 is as follows:

	2011	2010
Capital assets	\$ 1,133,349,818	\$ 942,837,888
Less accumulated depreciation	(507,928,798)	(459,120,465)
Less outstanding debt	(268,145,985)	(208,160,919)
Invested in capital assets, net	<u>\$ 357,275,035</u>	<u>\$ 275,556,504</u>





## Notes to Financial Statements

### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Restricted net assets as of June 30 are as follows:

	2011	2010
Bond reserves:		
Operations and maintenance reserve	\$ 29,773,617	\$ 30,230,832
Operations and maintenance subaccount reserve	9,924,539	10,076,944
Revenue and replacement reserve	5,400,000	5,400,000
Bond reserve with Trustee	5,395,610	5,395,610
Debt service principal	4,760,000	3,105,000
Commercial paper reserve	63,115	63,686
Commercial paper held by Trustee	12,855	12,853
Small Business Development Bond Guarantee	4,000,000	4,000,000
Passenger facility charges unapplied	54,819,295	57,894,537
Passenger facility charges receivable	5,121,210	5,015,518
Customer facility charges unapplied	20,974,319	10,841,385
Customer facility charges receivable	1,029,040	1,235,660
Owner Controlled Insurance Program (OCIP) loss reserve	6,239,213	6,400,000
Total restricted net assets	<u>\$ 147,512,813</u>	<u>\$ 139,672,025</u>

Unrestricted net assets as of June 30 include designations of net assets that represent tentative management plans that are subject to change, consisting of:

	2011	2010
Operating contingency	\$ 2,000,000	\$ 2,000,000
Insurance contingency (Note 9)	5,223,990	4,349,994
Net pension asset	7,760,767	8,317,080
Capital projects and other commitments (Note 12)	924,568	18,545,693
	<u>\$ 15,909,325</u>	<u>\$ 33,212,767</u>

**Revenue classifications:** Revenue is recognized when earned. The Airport Authority will classify revenues as operating or nonoperating based on the following criteria:

Operating revenues are from the revenue sources that constitute the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating revenue sources consist of landing fees and terminal building and ground rentals, concession and parking fees, and other miscellaneous fees and charges. Landing fees and terminal building rates are charged on the basis of recovery of actual costs for operating and maintaining the SDIA airfield and terminal areas. Ground rentals consist mainly of rent received for leased cargo facilities. Concession fees are determined as a percentage of gross monthly revenues generated by each concession lessee's monthly operations. Parking fees are generated from the airport parking lots.

Nonoperating revenues are from revenue sources related to financing activities and other activities, which do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of the nonoperating revenue sources are interest income from cash and investments, certain legal settlement income, PFCs, CFCs and grant revenue related to the Quieter Home Program.

## Notes to Financial Statements

### Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

**Expense classifications:** The Airport Authority will classify expenses as operating or nonoperating based on the following criteria:

Operating expenses relate to the principal ongoing activities of the Airport Authority's operations. The major components of the Airport Authority's operating expense sources consist of salaries and benefits, contractual services, space rental, utilities, maintenance, equipment and systems, materials and supplies, insurance, employee development and support, business development, and equipment rentals and repairs.

Nonoperating expenses relate to financing, investing and other activities that do not constitute the principal ongoing activities of the Airport Authority's operations. The major components of nonoperating expense sources are expenditures for the Quieter Home program, interest expense and other nonoperating expenses such as legal settlements and unrealized loss on investments.

**Federal grants:** When a grant agreement is approved and all eligibility requirements have been met, the expenditures are recorded as a federal grant receivable and as a capital grant contribution or nonoperating grant revenue, as appropriate.

**Cash and cash equivalents:** For purposes of the statements of cash flows, cash and cash equivalents includes unrestricted and designated cash on hand, demand deposits, commercial paper and repurchase agreements collateralized by the U.S. government or agency obligations with original maturities of three months or less from the date of acquisition.

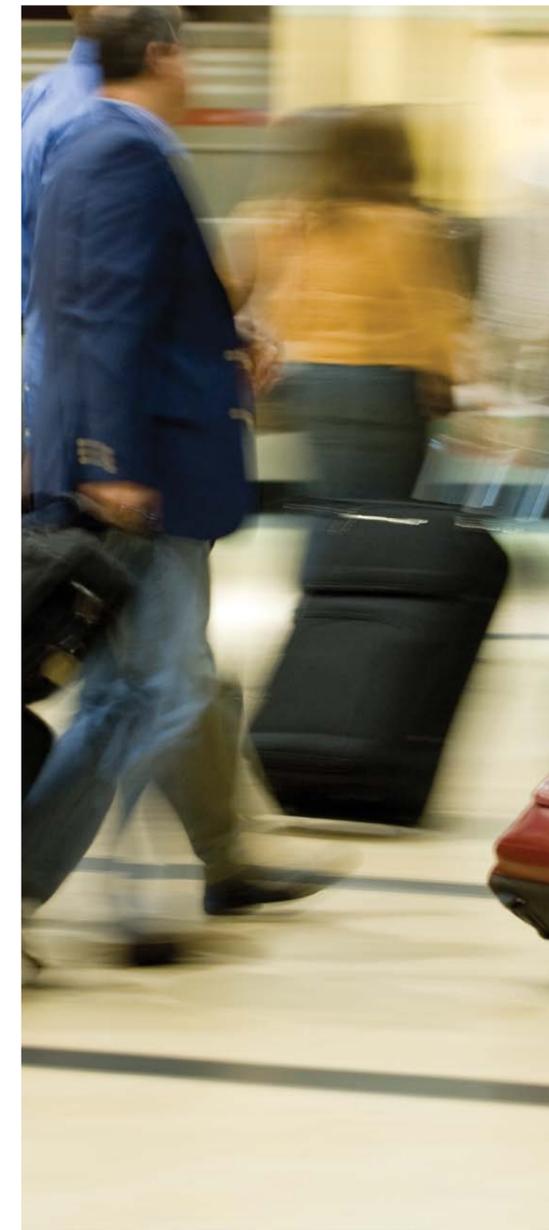
**Deferred bond costs:** The revenue bond original discount and the revenue bond original issue premium, along with issuance costs, are deferred and amortized over the term of the bonds, using the effective interest rate method.

**Implementation of new accounting pronouncement:** GASB Statement No. 59, *Financial Instruments Omnibus*, was issued in June 2010 and implemented by the Airport Authority for the year ended June 30, 2011. This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

**Pronouncements issued, but not yet effective:** The GASB issued pronouncements prior to June 30, 2011 that have an effective date that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statements may have on the financial statements of the Airport Authority:

- GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*
- GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*

**Reclassifications:** Certain reclassifications have been made to the 2010 financial information in order to conform to the 2011 presentation. These reclassifications had no impact on net income or Airport Authority net assets.





### Notes to Financial Statements

#### Note 2. Cash and Investments and Subsequent Event

**Summary of cash and investments:** Cash and investments are reported in the accompanying balance sheets as follows at June 30:

	2011	2010
Unrestricted and undesignated:		
Cash and cash equivalents	\$ 45,858,618	\$ 30,192,220
Current investments	43,680,088	74,853,720
Noncurrent investments	16,827,172	950,564
Total unrestricted and undesignated	106,365,878	105,996,504
Designated for specific capital projects and other commitments, cash and cash equivalents	8,148,558	20,895,687
Restricted cash and investments:		
Bond reserves		
Operations and maintenance reserve	29,773,617	30,230,832
Operations and maintenance subaccount reserve	9,924,539	10,076,944
Renewal and replacement reserve	5,400,000	5,400,000
	45,098,156	45,707,776
Passenger facility charges unapplied	54,819,295	57,894,537
Customer facility charges unapplied	20,974,319	10,841,385
Small Business Development Bond Guarantee	4,000,000	4,000,000
Commercial paper reserve	63,115	63,686
Total restricted cash and investments	124,954,885	118,507,384
Total cash and investments not with Trustee	239,469,321	245,399,575
Investments held by Trustee:		
Money market funds	36,899,689	4,241,638
Guaranteed investment contract	5,394,063	5,394,063
Certificates of deposit	20,119,036	-
California Asset Management Program (CAMP)	23,363	-
Local Agency Investment Fund (LAIF)	99,791,287	-
San Diego County Investment Pool (SDCIP)	219,593,285	-
U.S. agency securities	15,094,998	-
Total held by Trustee	396,915,721	9,635,701
Total cash and investments	\$ 636,385,042	\$ 255,035,276

### Notes to Financial Statements

#### Note 2. Cash and Investments and Subsequent Event (Continued)

Components of cash and investments at June 30 are summarized below:

	2011	2010
Unrestricted cash on deposit:		
Cash on hand	\$ 51,976	\$ 51,976
Cash in banks	14,259,815	47,823,670
Total unrestricted cash on deposit	14,311,791	47,875,646
Unrestricted cash equivalents:		
Money market funds	39,695,385	3,212,262
Unrestricted and restricted investments:		
Certificates of deposit	15,888,440	16,031,421
Local Agency Investment Fund	47,131,845	46,905,826
San Diego County Investment Pool	48,991,312	49,619,000
Corporate bonds	-	4,030,620
Commercial Paper	3,490,340	-
U.S. Treasury notes	11,037,820	9,610,384
U.S. agency securities	58,922,388	68,114,416
Total unrestricted and restricted investments	185,462,145	194,311,667
Total cash equivalents and investments not with Trustee	225,157,530	197,523,929
Investments held by Trustee:		
Money market funds	36,899,689	4,241,638
Bond reserve, guaranteed investment contract	5,394,063	5,394,063
Certificates of deposit	20,119,036	-
California Asset Management Program	23,363	-
Local Agency Investment Fund	99,791,287	-
San Diego County Investment Pool	219,593,285	-
U.S. agency securities	15,094,998	-
Total investments held by Trustee	396,915,721	9,635,701
Total cash equivalents and investments	622,073,251	207,159,630
Total cash, cash equivalents and investments	\$ 636,385,042	\$ 255,035,276





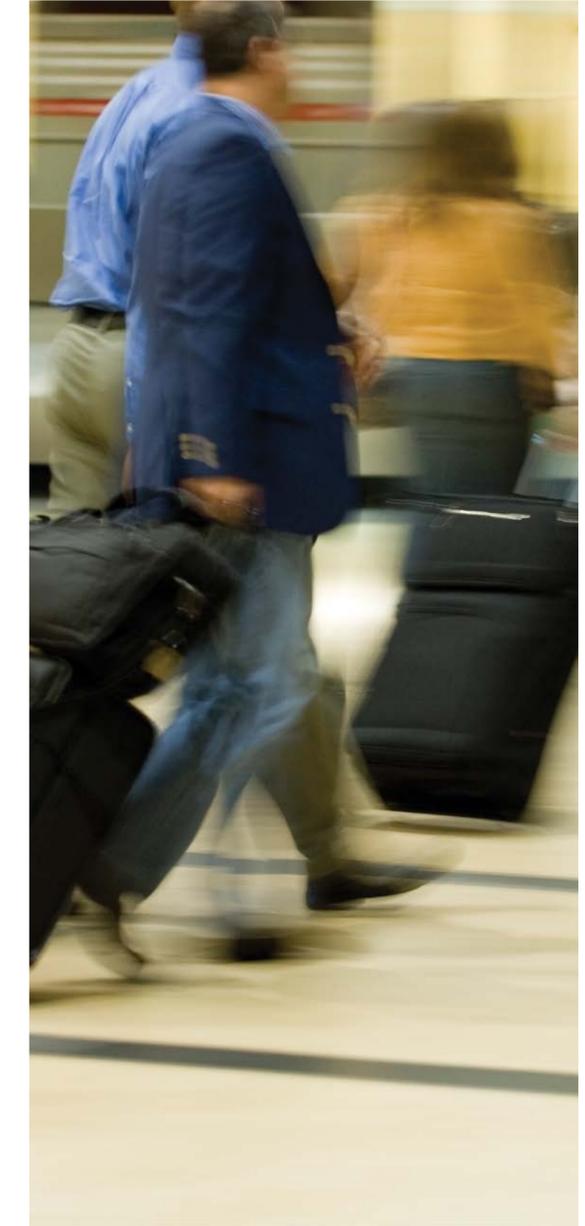
**Notes to Financial Statements**

**Note 2. Cash and Investments and Subsequent Event (Continued)**

**Investments authorized in accordance with California Government Code Section 53601 and under the provisions of the Airport Authority's investment policy:** The table below identifies the investment types that are authorized by the Airport Authority's investment policy and State Government Code. The table also identifies certain provisions of the Airport Authority's investment policy that address interest rate risk, credit risk and concentration of credit risk. This table does not address investments of bond proceeds held by the bond trustee that are governed by provisions of debt agreements of the Airport Authority, in addition to the general provisions of the Airport Authority's investment policy and State Government Code.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	5 years	N/A	None	None
U.S. agency securities	5 years	N/A	None	None
Banker's acceptances	180 days	AAA/Aaa	40 percent	10 percent
Commercial paper	270 days	A-1; P-1; F-1	25 percent	10 percent
Negotiable certificates of deposit	< 25 months	A	30 percent	10 percent
	25-36 months	AA	30 percent	10 percent
Medium-term notes	< 25 months	A	15 percent	5 percent
	25-36 months	AA	15 percent	5 percent
Repurchase agreements	1 year	A	None	None
Mortgage-backed securities	5 years	AAA	20 percent	None
Local Agency Investment Fund	N/A	N/A	None	\$50 million
San Diego County Investment Pool	N/A	N/A	None	\$50 million
Local Government Investment Pool	N/A	N/A	None	\$50 million
Money market mutual funds	N/A	AAA/Aaa	20 percent	10 percent
U.S. State and California agency indebtedness	5 years	A	20 percent	5 percent
Placement service certificates of deposits	3 years	N/A	30 percent	10 percent
Bank deposits (DOA/CDs)	N/A	*	20 percent	10 percent

\* Financial institution must have at least an overall satisfactory rating under the Community Reinvestment Act for meeting the credit needs of California communities in its most recent evaluation. Collateralization required per Cal. Gov. Code Section 53630 et seq.



**Notes to Financial Statements**

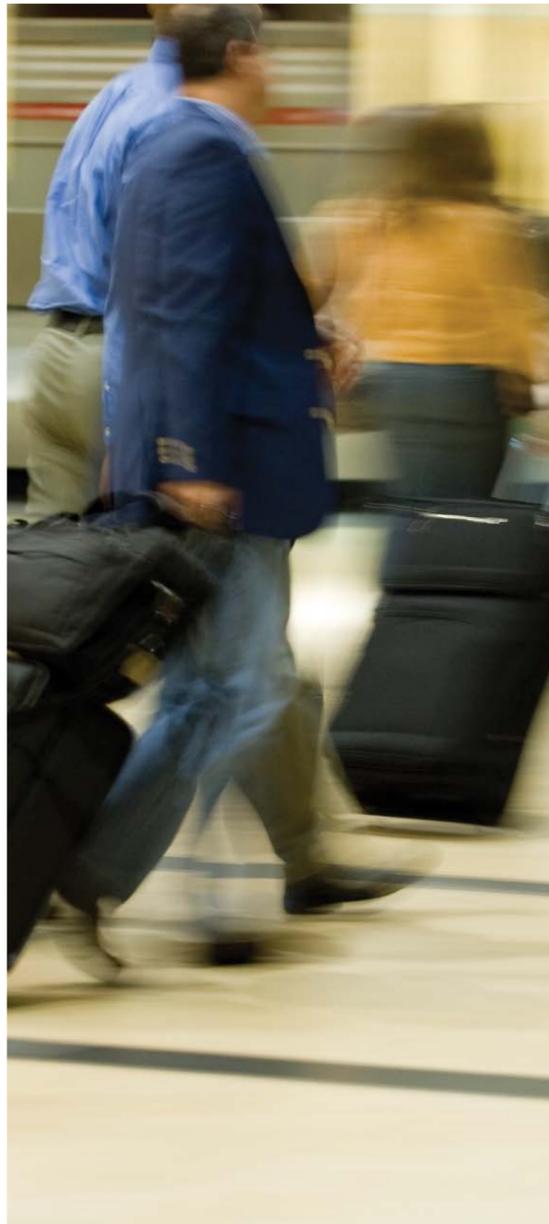
**Note 2. Cash and Investments and Subsequent Event (Continued)**

**Investments authorized by debt agreements:** Investments held by the bond trustee are governed by the provisions of the debt agreement, in addition to the general provisions of the California Government Code and the Airport Authority's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee, according to the Master Trust Indenture. In the event of a conflict between the Airport Authority's investment policy and permitted investments associated with any Airport Authority debt issuance, the indentures shall control. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Quality Requirements	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury obligations	None	N/A	None	None
U.S. agency securities	None	N/A	None	None
Banker's acceptances	360 days	AAA/Aaa	None	None
Commercial paper	270 days	A-1; P-1; F-1	None	None
Repurchase agreements	None	N/A	None	None
	None	Two highest ratings	None	None
Money market portfolio				
Cash	None	N/A	None	None
Deposit accounts	None	N/A	None	None
		Two highest ratings		
Municipal bonds	None	N/A	None	None
Local Agency Investment Fund	None	N/A	None	None
San Diego County Investment Pool	None	N/A	None	None
		Two highest ratings		
Certificates of deposit	None	N/A	None	None
Investment agreements	None	N/A	None	None

The primary objective of the Airport Authority's investment policy is to invest public funds in a manner that will provide the highest security of the funds under management while meeting the daily cash flow demands of the Airport Authority. Assets of the Airport Authority that are not bond proceeds, which are invested in securities as permitted in the bond indenture, are described in the preceding table. In addition, there are various credit criteria as defined in the Airport Authority's investment policies:

- Banker's acceptances, eligible for purchase by the Federal Reserve System and are rated in the highest category by a nationally recognized statistical organization (NRSRO).
- Commercial paper of prime quality of the highest ranking or of the highest letter and number rating as provided for by an NRSRO.
- Negotiated certificates of deposit (NCD) issued by state or chartered bank or a state or federal savings institution, shall be rated "A" or better by an NRSRO. NCDs with an "A" rating shall be limited to 24 months maximum maturity; "AA"-rated NCDs shall be limited to 36 months.



**Notes to Financial Statements**

**Note 2. Cash and Investments and Subsequent Event (Continued)**

- Medium-term notes issued by corporations organized and operating within the United States shall be rated "A" or better by an NRSRO for maturities less than 24 months and "AA" for maturities less than or equal to 36 months.
- U.S. government-sponsored agencies rated "AAA/Aaa" issued mortgage-backed security with a maximum of five years maturity.
- Money market mutual funds with management companies that are money market funds registered with the Securities and Exchange Commission (SEC), investing in the securities and obligations as authorized by California Government Code 53601. These companies shall either: (1) attain the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or (2) retain an investment advisor registered with the SEC with not less than five years experience investing in the securities and obligation market as authorized by California Government Code 53601, subdivision (a) to (m) inclusive, and with assets under management in excess of \$500 million.

**Investments held by Trustee:** The Airport Authority has monies held by trustees pledged for the security and payment of certain debt instruments as required by the debt agreements. The Series 2005 Bonds require the Airport Authority to maintain reserve accounts with a bond trustee for security and the payment of the bonds. At June 30, 2011 and 2010, the investments held by the Trustee related to the Series 2005 Bonds were \$9,718,078 and \$9,635,701, respectively, which included the July 1 payment in the amount of \$4,309,613 and \$4,227,238, respectively. The subordinate Series 2010 Bonds require the Airport Authority maintain a reserve account and deposit all unused bond proceeds with a bond trustee. At June 30, 2011, the amount held by the Trustee related to the subordinate Series 2010 Bond was \$387,197,643, which included the July 1 payment in the amount of \$2,247,976. The commercial paper notes require the Airport Authority to maintain an interest reserve account with the note Trustee. At June 30, 2011 and 2010, the commercial paper interest held by the Trustee was \$12,855 and \$12,853, respectively.

**Disclosures related to interest rate risk:** Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Airport Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities. These staggered maturities also provide consistent cash flow and fulfill liquidity needs for operations. The Airport Authority monitors interest rate risk inherent in its portfolio by measuring the segmented time distribution of its portfolio. The Airport Authority has no specific limitations with respect to this metric.

**Notes to Financial Statements**

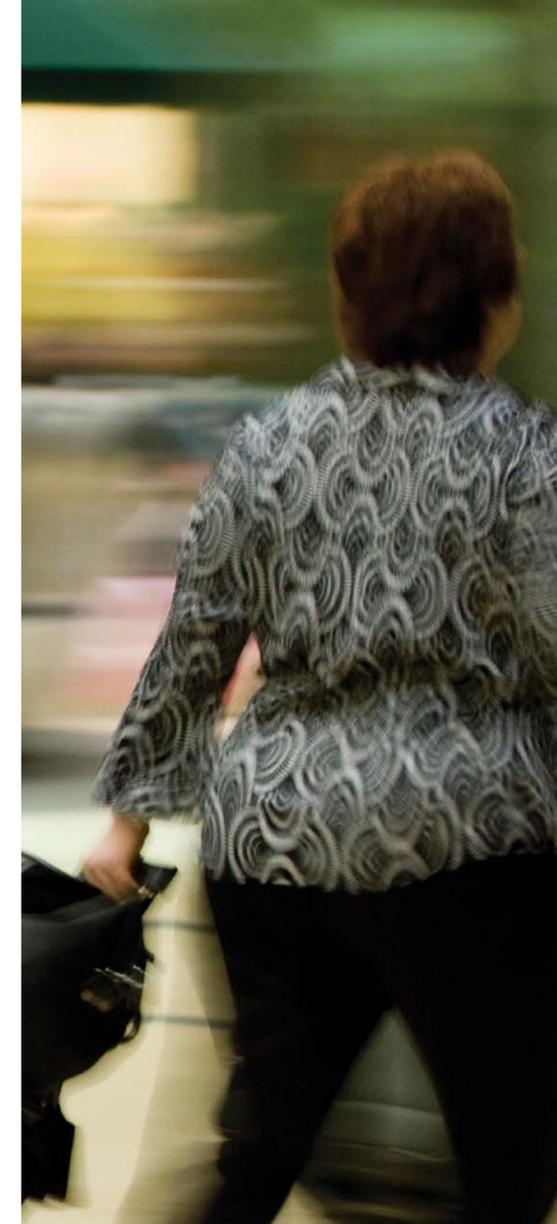
**Note 2. Cash and Investments and Subsequent Event (Continued)**

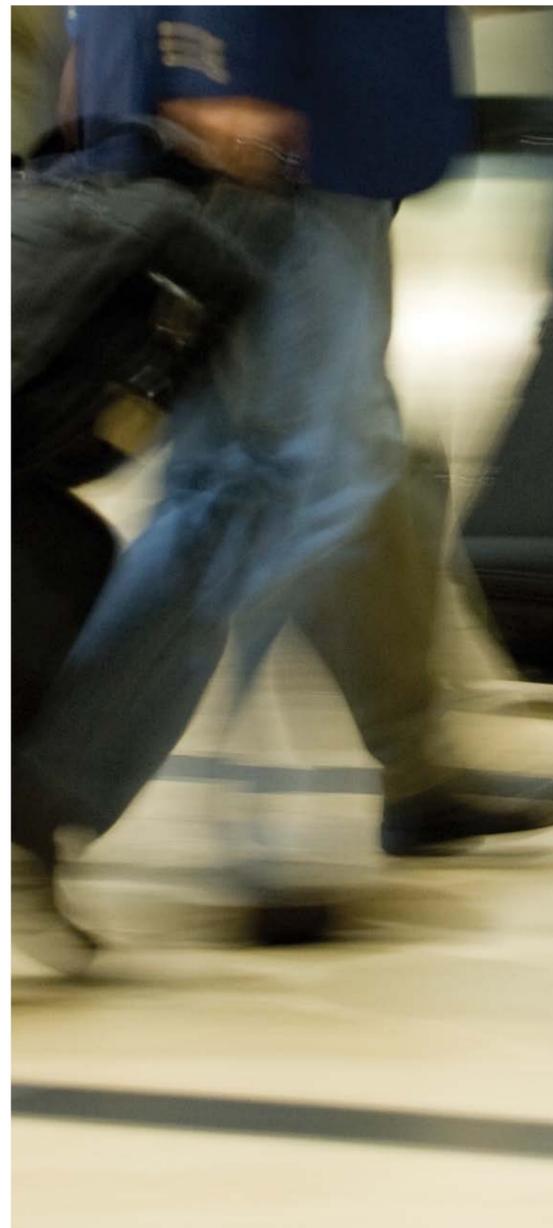
Information about the sensitivity of the fair values of the Airport Authority's investments (including investments held by bond trustee) to market rate fluctuations is provided by the following table, which shows the distribution of the entity's investments by maturity as of June 30, 2011:

Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
<b>Investments subject to interest rate risk:</b>					
CAMP	\$ 23,363	\$ 23,363	\$ -	\$ -	\$ -
LAIF	146,923,132	146,923,132	-	-	-
SDCIP	268,584,597	268,584,597	-	-	-
Commercial paper	3,490,340	3,490,340	-	-	-
U.S. Treasury notes	11,037,820	8,034,880	3,002,940	-	-
U.S. agency securities	74,017,386	15,094,998	11,994,370	46,928,018	-
Guaranteed investment contract	5,394,063	-	-	-	5,394,063
<b>Total investments subject to interest rate risk</b>	<b>509,470,701</b>	<b>442,151,310</b>	<b>14,997,310</b>	<b>46,928,018</b>	<b>5,394,063</b>
<b>Deposits not subject to interest rate risk:</b>					
Money market funds	76,595,074	76,595,074	-	-	-
Certificates of deposit	36,007,476	36,007,476	-	-	-
<b>Total deposits not subject to interest rate risk</b>	<b>112,602,550</b>	<b>112,602,550</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>\$ 622,073,251</b>	<b>\$ 554,753,860</b>	<b>\$ 14,997,310</b>	<b>\$ 46,928,018</b>	<b>\$ 5,394,063</b>

**Custodial credit risk (deposits):** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Airport Authority maintains deposits at several institutions in order to minimize custodial credit risk. These deposits are collateralized by various instruments such as U.S. government securities (guaranteed) or U.S. agency securities (government sponsored). California Government Code requires a minimum of 105 percent collateralization of these deposits which are authorized by the Airport Authority's investment policy. Insurance through the Federal Deposit Insurance Corporation (FDIC) may be applicable to the first \$250,000 of institutional deposit accounts, with any balance above this amount covered by the collateralization requirement.

**Custodial credit risk (investments):** Custodial credit risk for investments is the risk that the Airport Authority will not be able to recover the value of its investments in the event of a counterparty failure. The Airport Authority uses third-party banks' custody and safekeeping services for its registered investment securities. Securities are held in custody at third-party banks registered in the name of the Airport Authority and are segregated from securities owned by those institutions or held in custody by those institutions. Certificates of deposit held by the Airport Authority's third-party custodians are fully insured by the FDIC, as the individual amounts do not exceed the FDIC-insured limits, or collateralized in accordance with the California Government Code.





## Notes to Financial Statements

### Note 2. Cash and Investments and Subsequent Event (Continued)

**Disclosures related to credit risk:** Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of an investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the actual rating as of June 30, 2011 for each investment type:

Investment Type	Total	Unrated	AAA/Aaa	A-1+/P-1
Investments subject to credit rate risk:				
CAMP	\$ 23,363	\$ -	\$ 23,363	\$ -
SDCIP	268,584,597	-	268,584,597	-
LAIF	146,923,132	146,923,132	-	-
Commercial paper	3,490,340	-	-	3,490,340
U.S. Treasury notes	11,037,819	-	(1) 11,037,820	-
U.S. agency securities	58,922,387	-	(1) 58,922,388	-
Guaranteed investment contract	20,489,061	-	20,489,061	-
Total investments subject to credit risk	509,470,699	146,923,132	359,057,229	3,490,340
Deposits subject to credit risk:				
Money market funds	76,595,074	76,595,074	-	-
Certificates of deposit	36,007,476	36,007,476	-	-
Total deposits subject to credit risk	112,602,550	112,602,550	-	-
	\$ 622,073,249	\$ 259,525,682	\$ 359,057,229	\$ 3,490,340

Source: Standard & Poor's, Moodys and Fitch

- (1) On August 5, 2011, Standard & Poor's (S&P) lowered the long-term sovereign credit rating of U.S. Government debt obligations from AAA to AA+. On August 8, 2011, S&P also downgraded the long-term credit ratings of U.S. government-sponsored enterprises. To date, Moody's and Fitch have maintained Aaa and AAA ratings, respectively, for both U.S. Government and U.S. government-sponsored enterprises' debt obligations. While there has been no immediately apparent adverse impact to the Authority's investment portfolio from the S&P action, the ultimate impacts on global markets and our business, financial condition, and liquidity are unpredictable given the unprecedented nature of negative credit rating actions with respect to U.S. government obligations.

**Concentration of credit risk:** The investment policy of the Airport Authority contains no limitations on the amount that can be invested by any one issuer beyond that stated above. Investments that represent 5 percent or more of the Airport Authority's investments as of June 30, 2011 are as follows:

Issuer	Type	Fair Value	Percentage of Portfolio
East West Bank	Money market funds and certificates of deposit	\$ 58,267,979	9.16%
Federal National Mortgage Assoc.	U.S. agency securities	46,105,368	7.24%
		\$ 104,373,347	16.40%

## Notes to Financial Statements

### Note 2. Cash and Investments and Subsequent Event (Continued)

**Investment in state investment pool:** The Airport Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Airport Authority's investment in this pool is reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of each portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF.

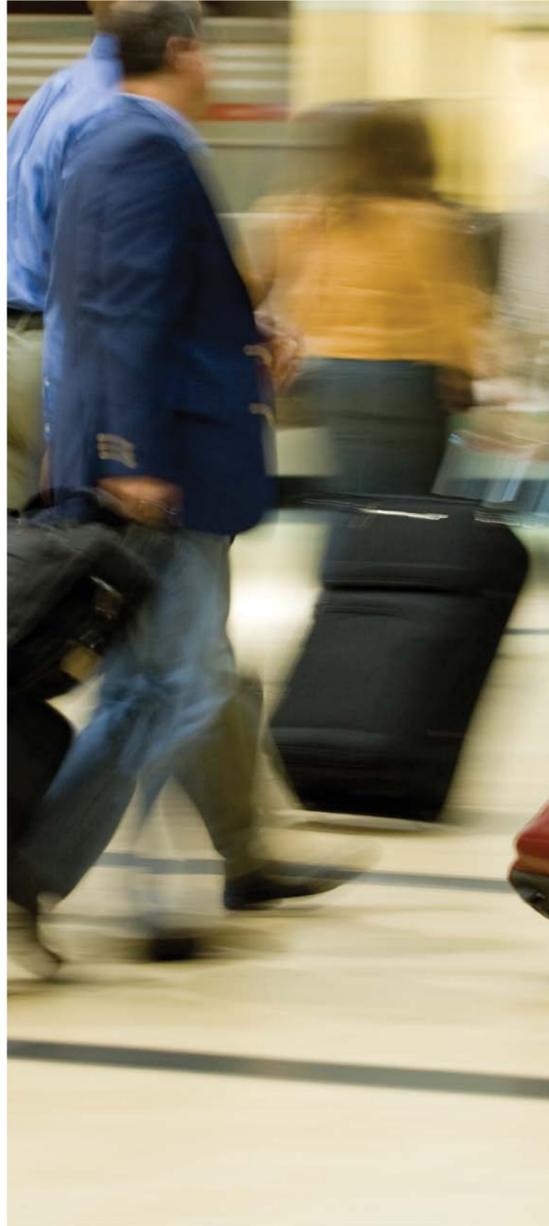
**Investment in county investment pool:** The Airport Authority is a voluntary participant in the San Diego County Investment Pool (SDCIP) that is regulated by California Government Code Section 16429 under the oversight of the County Treasurer of San Diego. The Airport Authority's investment in this pool is reported in the accompanying financial statements at fair value based upon the Airport Authority's pro rata share of the amortized cost basis provided by SDCIP for the entire SDCIP portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by SDCIP.

**Investment in California Asset Management Program Pool:** The Airport Authority is a voluntary participant in the California Asset Management Program Pool (CAMP or the Pool), which was established under provisions of the California Joint Exercise of Powers Act to provide California Public Agencies with comprehensive investment management services. The Airport Authority's investment in the Pool are reported in the accompanying financial statements at the net asset value per share as provided by CAMP.

CAMP is exempt from registration with the Securities and Exchange Commission under the Investment Company Act of 1940, but operates in a manner consistent with SEC Rule 2a-7, "Money Market Funds," of that Act. Accordingly, the Pool meets the definition of a "2a-7 like pool" set forth in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. While the Pool itself is exempt from SEC registration, the Pools Investment advisor and administrator, PFM Asset management LLC, is registered with the SEC as an investment advisor under the Investors Advisors Act of 1940. PFM Asset Management LLC has filed with the California Department of Corporations, as well as various other states, as an investment advisor under the state security laws. In addition, CAMP also meets the definition of "Municipal Fund Security" outlined by Municipal Rulemaking Board (MSRB) Rule 0-12. Therefore, contacts with prospective investors relating to shares of the pool are conducted through PFM Asset Management's wholly owned subsidiary, PFMAM, Inc., a broker/dealer that is registered with the SEC and MSRB, and is a member of (FINRA). CAMP files an income tax return annually with the Internal Revenue Service, though the new income of the Pool is generally exempt from federal income tax.

**Small business development bond guarantee:** The Airport Authority has established a \$4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program. Both the Airport Authority and the sureties participate in the risk under this program. The objective of this program is to ensure that local small, disadvantaged, disabled veteran, and other business enterprises have every opportunity to do business with the Airport Authority.





### Notes to Financial Statements

#### Note 2. Cash and Investments and Subsequent Event (Continued)

**Investment recovery:** In fiscal year 2010, the Airport Authority recognized a loss of \$166,515 on its investment in the Primary Liquidity Fund operated by The Reserve Money Management Corporation of New York (The Reserve Fund), the original investment of which was \$12,157,575. During fiscal year 2011, the Airport Authority received a payment \$49,238 from the fund that was reported as an investment recovery. Additionally, The Reserve Fund reduced the undistributed balance by \$93,400 for fees and expenses of the liquidation. The remaining undistributed balance of the investment in The Reserve Fund as of June 30, 2011 and 2010 was \$23,838 and \$166,515, respectively. The Airport Authority will continue to recognize amounts received from The Reserve Fund, if any, in the period collected.

#### Note 3. Notes Receivable

As part of the transfer of airport operations, pursuant to the MOU, the District issued a \$50,000,000 unsecured promissory note to the Airport Authority. Pursuant to an agreement with the District that commenced on January 1, 2006, the note is amortized over 25 years and matures on December 31, 2030, subordinate to all bond indebtedness of the District, at a fixed interest rate of 5.5 percent per annum. On October 3, 2005, the Airport Authority's Board authorized the District to issue an \$8,000,000 promissory note in favor of Carnival Corporation on parity with the \$50,000,000 note. At June 30, 2011 and 2010, the balance of the note receivable was \$43,993,521 and \$45,221,133, respectively. The current portion recorded on the note for the years ended June 30, 2011 and 2010 was \$1,290,520 and \$1,227,612, respectively.

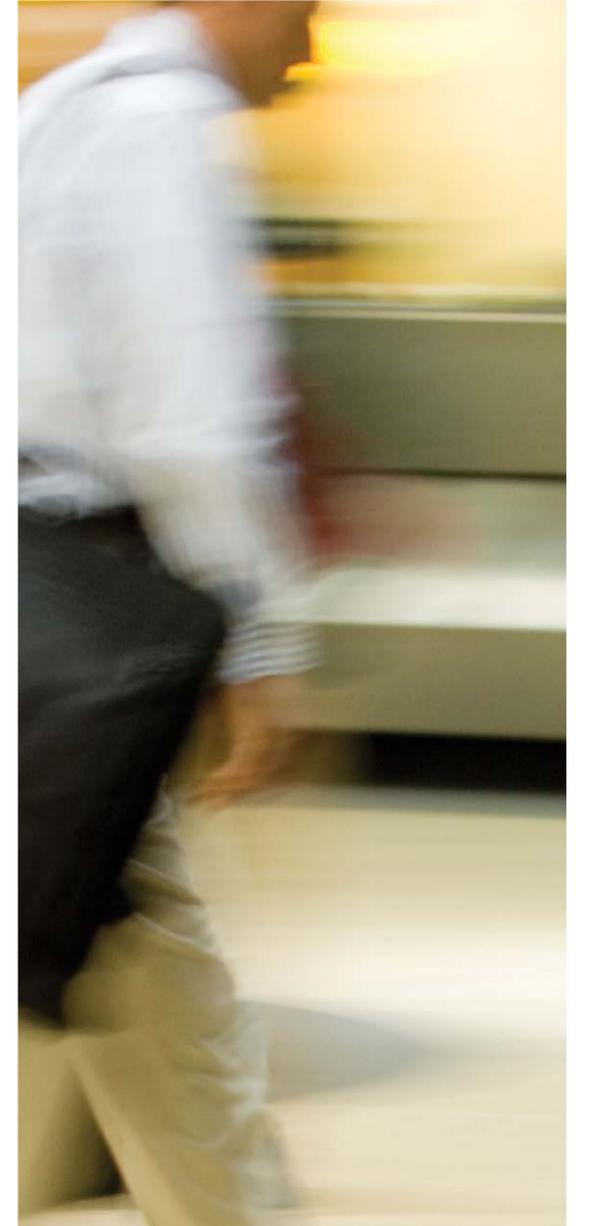
As part of the transfer of airport operations, pursuant to the Act, the District reimburses the Airport Authority for the fair market value of the Pond 20 property. The District is required to pay the Airport Authority monthly principal and interest payments over a 10-year period at an interest rate of 5.25 percent. A receivable for the Pond 20 property was recorded by the Airport Authority on January 1, 2003 at the District's preliminary appraised value of \$2,378,000. Pursuant to the settlement agreement with the District, the negotiated appraised value was \$3,329,000. Repayment terms remain unchanged. June 30, 2011 and 2010, the note receivable was recorded at a value of \$616,954 and \$1,002,132, respectively. The current portion recorded on the note for the years ended June 30, 2011 and 2010 was \$405,893 and \$385,178, respectively.

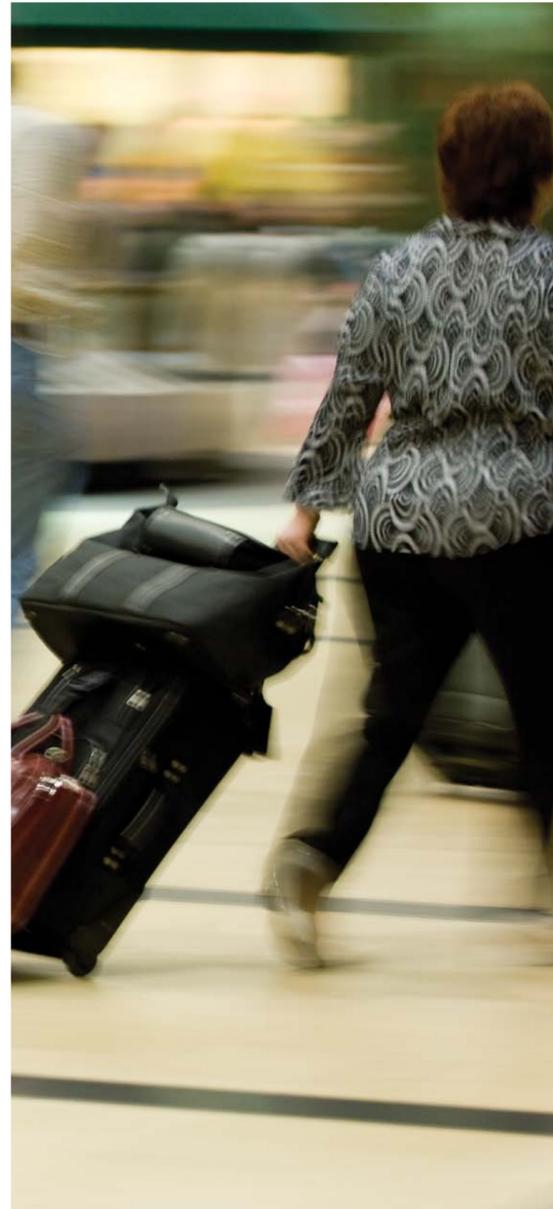
### Notes to Financial Statements

#### Note 3. Notes Receivable (Continued)

The required principal payments owed from the District for notes receivable for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Amount
2012	\$ 1,696,000
2013	1,581,000
2014	1,447,000
2015	1,529,000
2016	1,609,000
2017-2021	9,540,000
2022-2026	12,554,000
2027-2031	14,654,000
	<u>\$ 44,610,000</u>





**Notes to Financial Statements**

**Note 4. Capital Assets**

Capital asset activity was as follows:

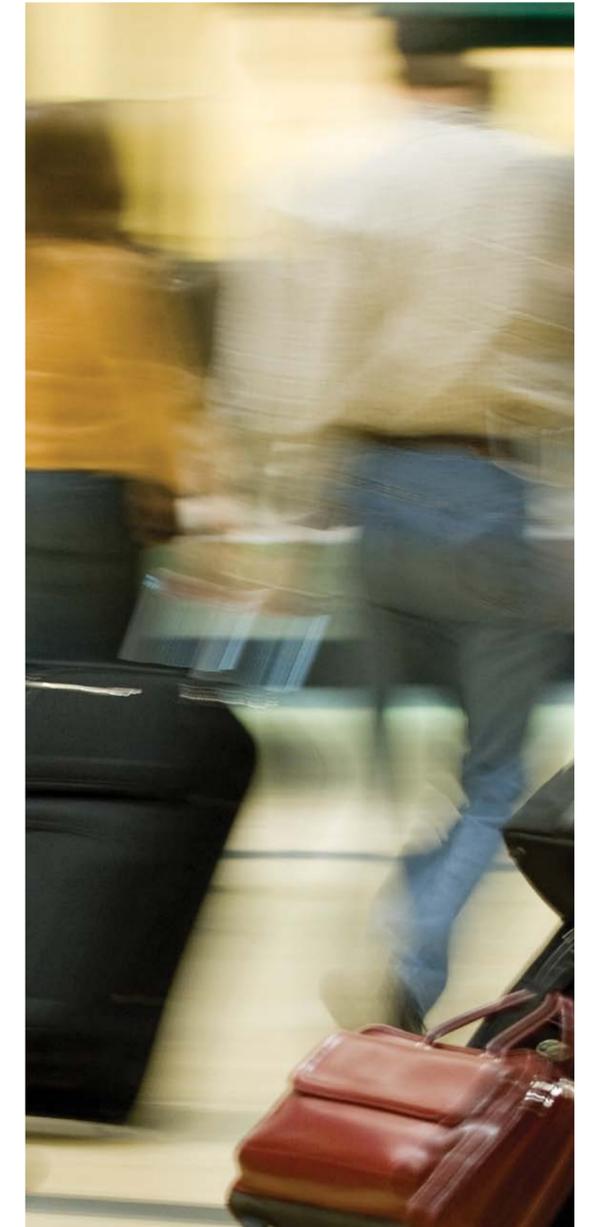
	Balance at June 30, 2010		Balance at June 30, 2011	
	Increases	Decreases	Increases	Decreases
<b>Nondepreciable assets:</b>				
Land	\$ 22,432,655	\$ -	\$ -	\$ 22,432,655
Construction in progress	183,013,695	190,737,326	(51,461,888)	322,289,133
Intangible asset	440,000	-	-	440,000
<b>Total nondepreciable assets</b>	<b>205,886,350</b>	<b>190,737,326</b>	<b>(51,461,888)</b>	<b>345,161,788</b>
<b>Depreciable assets:</b>				
Land improvements	1,001,553	1,026,912	-	2,028,465
Buildings and structures	462,867,893	4,399,285	(803,414)	466,463,764
Machinery and equipment	45,211,831	1,421,090	(386,224)	46,246,697
Runways, roads and parking lots	227,870,261	45,700,477	(121,634)	273,449,104
<b>Total capital assets being depreciated</b>	<b>736,951,538</b>	<b>52,547,764</b>	<b>(1,311,272)</b>	<b>788,188,030</b>
<b>Less accumulated depreciation for:</b>				
Land improvements	(1,001,553)	(47,295)	-	(1,048,848)
Building and structures	(270,556,272)	(28,272,258)	803,414	(298,025,116)
Machinery and equipment	(25,754,980)	(5,718,483)	286,161	(31,187,302)
Runways, roads and parking lots	(161,807,660)	(15,981,506)	121,634	(177,667,532)
<b>Total accumulated depreciation</b>	<b>(459,120,465)</b>	<b>(50,019,542)</b>	<b>1,211,209</b>	<b>(507,928,798)</b>
<b>Total capital assets being depreciated, net</b>	<b>277,831,073</b>	<b>2,528,222</b>	<b>(100,063)</b>	<b>280,259,232</b>
<b>Capital assets, net</b>	<b>\$ 483,717,423</b>	<b>\$ 193,265,548</b>	<b>\$ (51,561,951)</b>	<b>\$ 625,421,020</b>

Construction in progress contains projects such as The Green Build, upgrading certain major equipment, and improvements to the runway, parking lots and terminals. Current contracts with the Airport Authority related to these projects are discussed in Note 12.

**Notes to Financial Statements**

**Note 4. Capital Assets (Continued)**

	Balance at June 30, 2009		Balance at June 30, 2010	
	Increases	Decreases	Increases	Decreases
<b>Nondepreciable assets:</b>				
Land	\$ 22,432,655	\$ -	\$ -	\$ 22,432,655
Construction in progress	103,275,230	145,391,874	(65,653,409)	183,013,695
Intangible asset	440,000	-	-	440,000
<b>Total nondepreciable assets</b>	<b>126,147,885</b>	<b>145,391,874</b>	<b>(65,653,409)</b>	<b>205,886,350</b>
<b>Depreciable assets:</b>				
Land improvements	1,129,612	-	(128,059)	1,001,553
Buildings and structures	411,197,780	54,863,979	(3,193,866)	462,867,893
Machinery and equipment	37,218,852	10,251,525	(2,258,546)	45,211,831
Runways, roads and parking lots	228,860,559	678,438	(1,668,736)	227,870,261
<b>Total capital assets being depreciated</b>	<b>678,406,803</b>	<b>65,793,942</b>	<b>(7,249,207)</b>	<b>736,951,538</b>
<b>Less accumulated depreciation for:</b>				
Land improvements	(1,108,980)	(7,115)	114,542	(1,001,553)
Building and structures	(250,281,933)	(23,468,205)	3,193,866	(270,556,272)
Machinery and equipment	(22,386,496)	(5,627,029)	2,258,545	(25,754,980)
Runways, roads and parking lots	(150,227,942)	(13,248,452)	1,668,734	(161,807,660)
<b>Total accumulated depreciation</b>	<b>(424,005,351)</b>	<b>(42,350,801)</b>	<b>7,235,687</b>	<b>(459,120,465)</b>
<b>Total capital assets being depreciated, net</b>	<b>254,401,452</b>	<b>23,443,141</b>	<b>(13,520)</b>	<b>277,831,073</b>
<b>Capital assets, net</b>	<b>\$ 380,549,337</b>	<b>\$ 168,835,015</b>	<b>\$ (65,666,929)</b>	<b>\$ 483,717,423</b>





## Notes to Financial Statements

## Note 5. Debt

The following is a summary of changes in the long-term liability activity:

	Principal Balance at June 30, 2010	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2011	Due Within One Year
Debt obligations:					
Commercial paper	\$ 164,430,000	\$ -	\$ (142,921,000)	\$ 21,509,000	\$ 780,000
Bonds payable:					
Series 2005 Bonds	44,330,000	-	(3,105,000)	41,225,000	3,265,000
Series 2010 Bonds		572,565,000		572,565,000	715,000
Bond premiums	2,272,704	26,154,344	(1,296,734)	27,130,314	-
Deferred amounts on refunding	(2,318,731)	-	231,873	(2,086,858)	-
Total bonds payable	44,283,973	598,719,344	(4,169,861)	638,833,456	3,980,000
Total debt obligations	208,713,973	598,719,344	(147,090,861)	660,342,456	4,760,000
Compensated absences	2,531,602	2,330,591	(2,188,755)	2,673,438	2,188,755
Total long-term liabilities	\$ 211,245,575	\$ 601,049,935	\$ (149,279,616)	\$ 663,015,894	\$ 6,948,755

	Principal Balance at June 30, 2009	Additions/ New Issuances	Reductions/ Repayments	Principal Balance at June 30, 2010	Due Within One Year
Debt obligations:					
Commercial paper	\$ 84,430,000	\$ 80,000,000	\$ -	\$ 164,430,000	\$ -
Bonds payable:					
Series 2005 Bonds	47,280,000	-	(2,950,000)	44,330,000	3,105,000
Bond premium	2,499,975	-	(227,271)	2,272,704	-
Deferred amounts on refunding	(2,550,605)	-	231,874	(2,318,731)	-
Total bonds payable	47,229,370	-	(2,945,397)	44,283,973	3,105,000
Total debt obligations	131,659,370	80,000,000	(2,945,397)	208,713,973	3,105,000
Compensated absences	2,585,848	2,079,520	(2,133,766)	2,531,602	2,133,766
Total long-term liabilities	\$ 134,245,218	\$ 82,079,520	\$ (5,079,163)	\$ 211,245,575	\$ 5,238,766

## Notes to Financial Statements

## Note 5. Debt (Continued)

**Commercial paper Series A and B:** On September 6, 2007, the Board authorized issuance of \$250,000,000 of subordinate commercial paper. Proceeds from the issuance were designated to be used to finance further improvements to SDIA. Subordinate obligations issued or incurred under the program is secured by a pledge of airport revenues, subordinated to the pledge of net airport revenues securing payment of the Series 2005 Bonds with parity to the subordinate Series 2010 Bonds revenue. Each commercial paper note matures at the end of a period not to exceed 270 days. Each issuance can be rolled into another issuance. The commercial paper is classified as a long-term liability because the Airport Authority has an irrevocable letter of credit provided by Lloyds TSB Bank that expires no later than September 10, 2014 and is available if the commercial paper is not reissued. If the letter of credit is drawn upon and is not paid off within 90 days of being drawn upon, quarterly payments equal to the amount drawn will be paid. Interest is paid at a rate based on the market for similar commercial paper notes held by the bank. The commercial paper notes are rated A-1 by Standard & Poor's and P-1 by Moody's Investors Service.

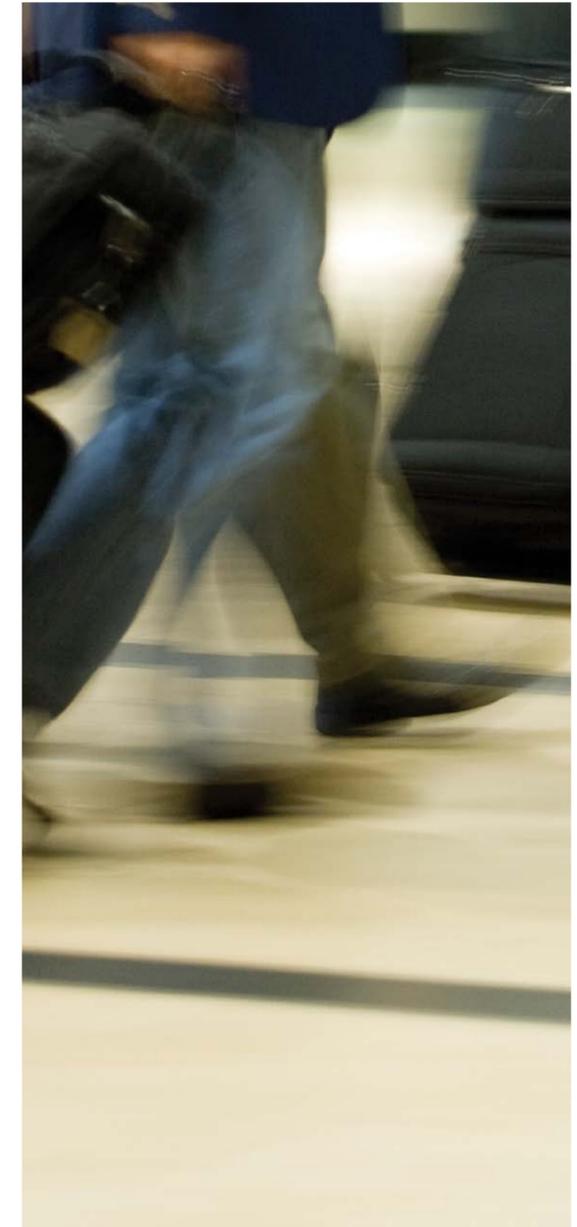
On October 6, 2010 and October 13, 2010, the Airport Authority refinanced \$115,776,000 and \$26,400,000, respectively, of Series A, B and C commercial paper with proceeds from the sale of subordinated Series 2010 Bonds. At June 30, 2011, the principal amount outstanding for Series B was \$21,509,000. The principal amounts of Series A and C were \$0. The average annual interest rates for Series A, B and C were 0.26 percent, 0.31 percent and 0.30 percent, respectively.

At June 30, 2010, the principal amount outstanding for Series A was \$67,376,000, with an average annual interest rate of 0.36 percent; the principal amount outstanding for Series B was \$57,254,000, with an average annual interest rate of 0.40 percent; and the principal amount outstanding for Series C was \$39,800,000, with an average annual interest rate of 0.35 percent.

Commercial paper interest expense for the years ended June 30, 2011 and 2010 amounted to \$189,788 and \$165,947, respectively, including accrued interest of \$63,115 and \$55,866, respectively.

The commercial paper notes require that the charges for services be set each year at rates sufficient to produce pledged revenues at least 110 percent times the debt service for that year. In addition, the commercial paper notes require the Airport Authority to maintain an interest reserve account with the note trustee and to reserve a certain amount in the Airport Authority's books. At June 30, 2011 and 2010, the amount held by the trustee was \$12,855 and \$12,853, respectively, and the amount reserved by the Airport Authority was \$63,115 and \$63,686, respectively.

**Airport Revenue Bonds, Series 2005 and Refunded Series 1995:** In fiscal year 1996, the California Maritime Infrastructure Authority issued Airport Revenue Bonds (Series 1995 Bonds) for the District, pursuant to a trust agreement dated December 1, 1995. The proceeds of the Series 1995 Bonds, together with investment income thereon, were used solely to pay a portion of the construction and installation of the West Terminal Expansion at SDIA, fund a Reserve Account and pay certain expenses in connection with the issuance of the Series 1995 Bonds. In conjunction with the transfer of airport operations to the Airport Authority on January 1, 2003, these bond obligations were assumed by the Airport Authority. The Series 1995 Bonds were issued in the aggregate principal amount of \$76,690,000, consisting of \$29,895,000 in serial bonds and \$46,795,000 in term bonds.





## Notes to Financial Statements

### Note 5. Debt (Continued)

On November 9, 2005, the Airport Authority issued airport revenue refunding bonds. Series 2005 Bonds were issued in the aggregate principal amount of \$56,270,000 to refund outstanding Series 1995 Bonds. The Series 2005 Bonds were structured as serial bonds that bear interest at rates ranging from 4.5 percent to 5.25 percent and mature in fiscal years 2007 to 2021. The bonds were issued at a premium of \$3,333,300, with deferred amounts on refunding of \$3,400,800, which are being amortized over the life of the bonds. Interest on the bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the years ended June 30, 2011 and 2010 amounted to \$2,089,225 and \$2,244,475, respectively, including accrued interest of \$1,044,612 and \$1,122,237, respectively. The principal balance on the Series 2005 Bonds as of June 30, 2011 and 2010 was \$41,225,000 and \$44,330,000, respectively.

The Series 2005 Bonds are payable solely from and secured by pledged revenues. Pledged revenues are defined as all revenues and other cash receipts of the Airport Authority's airport operations, reduced by operation and maintenance expenses. Pledged revenues do not include cash received from PFCs or federal grants.

The Series 2005 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 125 percent times the debt service for that year. In addition, the Series 2005 Bonds require the Airport Authority to maintain a reserve account with the bond trustee and to reserve certain amounts in the Airport Authority's books, as shown in Note 2. At the years ended June 30, 2011 and 2010, the amount held by the trustee was \$5,394,063 and \$5,394,063, respectively. An additional amount of \$4,309,613 and \$4,227,238 was held at June 30, 2011 and 2010, respectively, for the July 1 payments. The total amount reserved by the Airport Authority for 2011 and 2010 was \$45,098,156 and \$45,707,776, respectively. The underlying public ratings of the Series 2005 Bonds as of June 30, 2011 and 2010 are A+/A1/A+ by Standard & Poor's, Moody's Investors Service and Fitch Ratings, respectively.

The required debt service payments for the Series 2005 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	\$ 3,265,000	\$ 2,007,600	\$ 5,272,600
2013	3,430,000	1,840,225	5,270,225
2014	3,610,000	1,664,225	5,274,225
2015	3,790,000	1,479,225	5,269,225
2016	3,985,000	1,299,794	5,284,794
2017-2021	23,145,000	3,164,569	26,309,569
	<u>\$ 41,225,000</u>	<u>\$ 11,455,638</u>	<u>\$ 52,680,638</u>

A cumulative rebate liability relating to arbitrage of the Series 2005 Bonds was recorded for \$46,417 and \$183,422 as of the fiscal years ended June 30, 2011 and 2010, respectively. Ninety percent of the cumulative rebate liability is due to the United States no later than 60 days after July 1, 2011. Additionally, should the bonds be retired prior to July 1, 2011, 100 percent of the accumulated rebate liability will be due and payable within 60 days of the retirement date.

## Notes to Financial Statements

### Note 5. Debt (Continued)

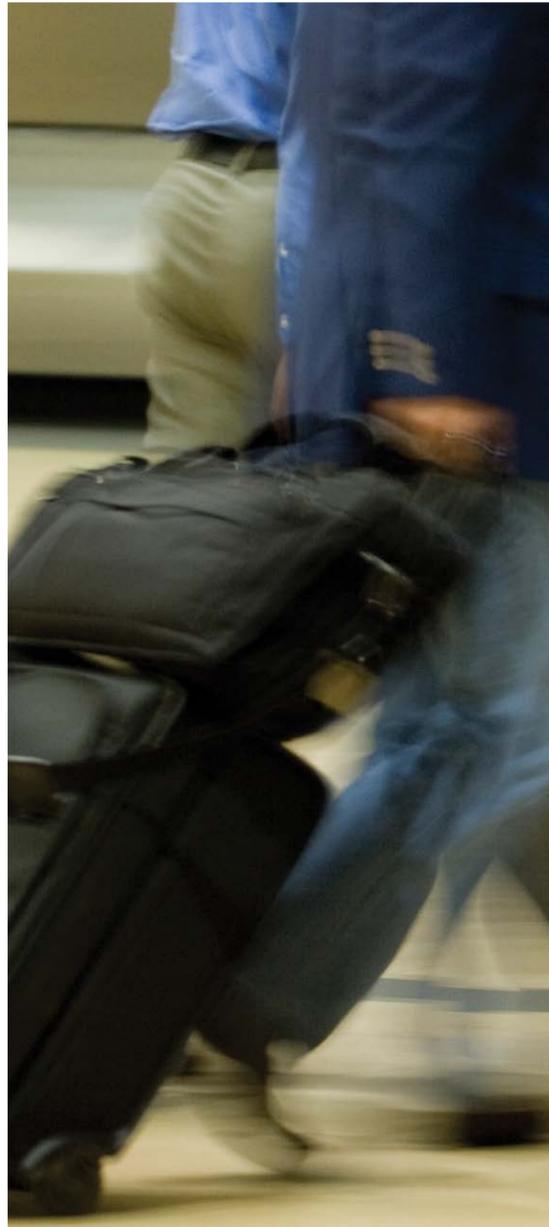
**Subordinate Series 2010 Bonds:** On October 5, 2010, the Airport Authority issued \$572,565,000 of Series A, B and C subordinate airport revenue bonds. The subordinate Series 2010 Bonds were issued to finance certain capital improvements at SDIA, fund a portion of the interest accruing on the subordinate Series 2010 Bonds through and including January 1, 2013, refund \$142,176,000 of the Airport Authority's outstanding commercial paper notes, fund the subordinate reserve fund and pay the costs of issuance of the subordinate Series 2010 Bonds.

The Series A and B bonds were structured as serial bonds that bear interest at rates ranging from 2.00 percent to 5.00 percent and mature in fiscal years 2012 to 2041. The Series C bonds were issued as Build America Bonds and include a cash subsidy payment from the U.S. Treasury equal to 35 percent of interest payable. The Build America Bonds interest subsidy for the year ended June 30, 2011 was \$3,691,431. The interest rate on the series C bonds, net of the subsidy, is 4.31 percent and the bonds mature in fiscal year 2041. The bonds were issued at a premium of \$26,154,344, which is being amortized under the effective interest method over the life of the bonds. The premium amortization for fiscal year 2011 was \$1,069,464. Interest on the subordinate Series 2010 Bonds is payable semiannually on January 1 and July 1 of each year. Interest expense for the year ended June 30, 2011 amounted to \$13,029,402, of which \$7,476,170 was capitalized to various capital projects. The principal balance on the subordinate Series 2010 Bonds as of June 30, 2011 was \$572,565,000.

The subordinate Series 2010 Bonds are special obligations of the Airport Authority, payable solely from and secured by (a) a pledge of subordinate net revenues, which include certain income and revenue received by the Airport Authority from the operation of the airport system, less all amounts that are required to pay the operation and maintenance expenses of the airport system and all amounts necessary to pay debt service on and fund the reserves for the senior bonds; and (b) certain funds and accounts held by the subordinate trustee under the subordinate indenture. The subordinate Series 2010 Bonds were issued with a pledge of and lien on subordinate net revenues on parity with the Airport Authority's subordinate commercial paper notes. In addition, the Airport Authority has irrevocably committed a portion of the Passenger Facility Charges, PFCs, it received and expects to receive through 2016. The amount of irrevocably committed PFCs are; \$14,703,838, \$19,208,838, \$19,206,113 and \$19,209,388 for fiscal years 2013, 2014, 2015 and 2016, respectively.

The subordinate Series 2010 Bonds require that charges for services be set each fiscal year at rates sufficient to produce pledged revenues at least 110 percent times the debt service for that year. In addition, the subordinate Series 2010 Bonds require the Airport Authority to maintain a reserve account with the bond Trustee. The amount held by the Trustee as of June 30, 2011 was \$387,197,643, which included the July 1 payment.





## Notes to Financial Statements

### Note 5. Debt (Continued)

The required debt service payments for the subordinate Series 2010 Bonds for the fiscal years ending June 30 are as follows:

Years Ending June 30,	Principal	Interest	Total
2012	\$ 715,000	\$ 31,762,248	\$ 32,477,248
2013	980,000	31,745,298	32,725,298
2014	1,000,000	31,720,498	32,720,498
2015	5,785,000	31,594,948	37,379,948
2016	8,665,000	31,318,098	39,983,098
2017-2021	49,550,000	149,979,317	199,529,317
2022-2026	62,945,000	136,240,023	199,185,023
2027-2031	80,190,000	118,557,929	198,747,929
2032-2036	161,025,000	85,746,886	246,771,886
2037-2041	201,710,000	31,615,634	233,325,634
	<u>\$572,565,000</u>	<u>\$680,280,879</u>	<u>\$ 1,252,845,879</u>

**Compensated absences:** Employee vacation that vests is recorded when earned. Accumulated sick leave is not accrued because employee rights to receive compensation for the unused portion terminate upon severance of employment.

**Line of credit:** In 2009 the Airport Authority established a \$4,000,000 line of credit with Union Bank, which is collateralized with a certificate of deposit. This line will be utilized to issue letters of credit to surety companies who are partnering with the Airport Authority to provide bonding assistance to contractors accepted into the bonding assistance program at the Airport Authority. As of June 30, 2011, nothing had been drawn on the line of credit and four letters of credit were issued, totaling \$1,297,957, for projects in progress. One of the letters of credit is due to expire January 19, 2012 and the remaining three will expire on February 27, 2012.

### Note 6. Defined-Benefit Plan

**Plan description:** The Airport Authority's defined-benefit pension plan is separately administered by the City of San Diego's City Employees' Retirement System (CERS). The San Diego County Regional Airport Authority Retirement Plan and Trust provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CERS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City of San Diego, the District and the Airport Authority, administered by the Retirement Board of Administration (the CERS Board). San Diego City Charter Section 144 and San Diego Municipal Code Sections 24.0100 et seq. assign the authority to establish and amend the benefit provisions of the plans that participate in CERS to the CERS Board. Additionally, the Airport Authority also contributes to the Federal Social Security Program. The CERS Board issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The financial report may be obtained by writing to the San Diego City Employees' Retirement System, 401 B Street, Suite 400, San Diego, California 92101.

## Notes to Financial Statements

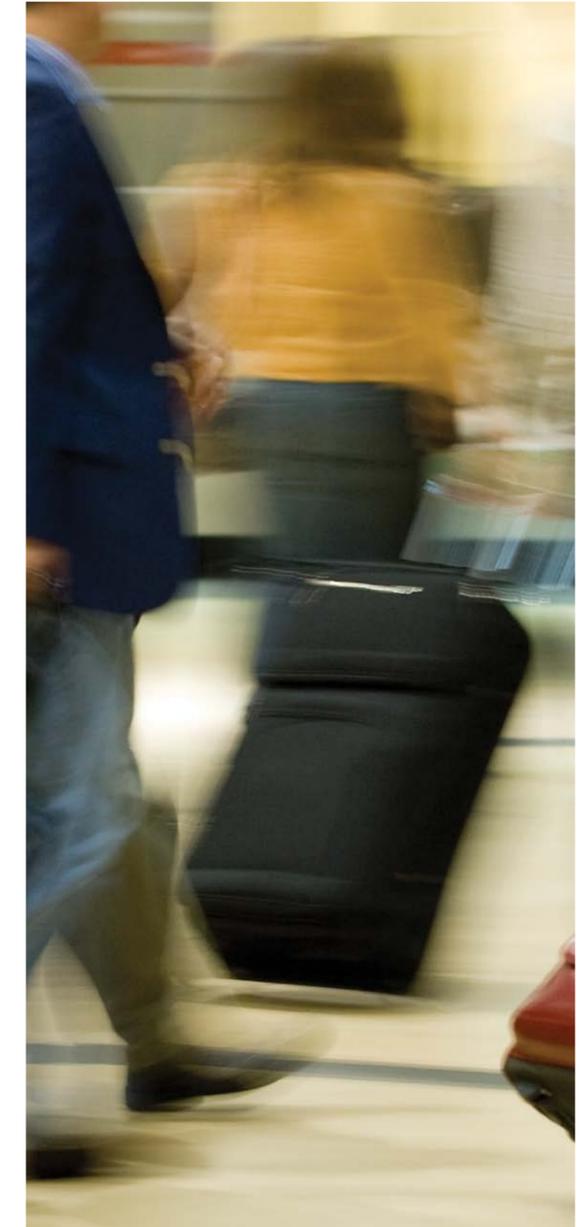
### Note 6. Defined-Benefit Plan (Continued)

**Funding policy:** The City of San Diego municipal code requires member contributions to be actuarially determined to provide a specific level of benefit. Member contribution rates, as a percentage of salary, vary according to age at entry, benefit tier level and certain negotiated contracts, which provide for the Airport Authority to pay a portion of the employees' contributions. The Airport Authority contribution rate, as determined through actuarial valuation, was 16.60 percent for 2011, 12.08 percent for 2010 and 12.69 percent for 2009, and is expressed as a percentage of covered payroll.

**Annual pension cost:** For the years ended June 30, 2011, 2010 and 2009, the annual pension cost included in salaries and benefits was \$6,289,996, \$4,999,976 and \$4,926,093, respectively, for the CERS pension. Comparing 2010 to 2009, total membership increased by 4 percent. The increase was attributable to both the growth in inactive membership, terminated vested, disabled, retirees and beneficiaries and active membership. The active member payroll increased by 3.7 percent, which is slightly below the assumed payroll inflation of 4 percent. The actuarial liability increased by 12.6 percent but the actuarial value of assets increased by 24.4 percent. The funding ratio increased from 86.9 percent as of June 30, 2009 to 96 percent as of June 30, 2010. CERS employs a commonly used actuarial smoothing method on the market value that dampens market volatility, so the actuarial value of assets did not increase as much as the market value (31.8 percent).

As of June 30, 2011, significant actuarial assumptions are as follows:

- The rates of retirement are assumed that retirement will occur, provided they have at least five years of service on the later of attained age or the earlier of age 62 or 55 and at least 20 years of service.
- Termination rates vary based on selected ages and years of service. The rates range from age 20 at 12.78 percent to age 60 at 2.78 percent. Additionally, 20 percent of terminating employees with at least five years of service at termination are assumed to subsequently work for a reciprocal employer and receive 4.50 percent pay increases per year.
- Disability rates are assumed to be 60 percent from industrial disability retirements. Nonindustrial disability retirement is subject to a service requirement.
- Mortality rates for active Airport Authority members were set to the RP2000 Combined Healthy table projected to 2008.
- Mortality rates for retired Airport Authority members were set to the RP2000 Combined Healthy table.
- The investment return assumption was 7.75 percent.
- The inflation assumption was 4.00 percent.
- Cost of living adjustments were 2.00 percent.
- The actuarial funding method is entry age normal.
- The amortization method is level percent closed.
- The asset valuation method is expected value method.
- The remaining amortization period is 24.481 years; this includes 11 years for the outstanding balance of the 2007 UAL, 15 years for experience gains and losses, 30 years for changes in methods and assumptions, 20 years for benefit changes.





## Notes to Financial Statements

### Note 6. Defined-Benefit Plan (Continued)

As of September 2006, the actuarial value of assets was equal to the market value of assets. The following year, the actuarial value was calculated by accepting 100 percent of the expected asset value plus 25 percent of the difference between the actual market value next year and the expected asset value. Any unfunded actuarially accrued liability would be funded as a level percentage of projected payrolls over a closed 18-year period. On September 16, 2004, the Airport Authority made a contribution payment in the amount of \$3,900,000, in addition to the ARC, to reflect a desired funded ratio of 90 percent. On June 21, 2005, the Airport Authority made an additional contribution of \$1,000,000. During the year ended June 30, 2006, the Airport Authority made an additional contribution of \$513,627. On June 30, 2010, the Airport Authority made a contribution of \$4,600,000 to increase the funded rate reported in the January 2010 CERS 2009 actuarial calculation from 86.9 percent to the desired funded ratio of 90 percent. At June 30, 2011, 2010 and 2009, the total contribution of \$10,013,627 less amortization of \$2,252,860, \$1,696,547 and \$1,395,790, respectively, is recorded as a net pension asset of \$7,760,767, \$8,317,080 and \$4,017,837, respectively. The contributions are being amortized over an 18-year period.

The Airport Authority's contribution for fiscal year 2012 measured as a percentage of membership payroll decreased from 16.60 percent to 15.06 percent. The required beginning-of-year contribution paid July 1, 2011 decreased by \$400,000.

## Notes to Financial Statements

### Note 6. Defined-Benefit Plan (Continued)

Schedule of funding progress for CERS (dollars in thousands):

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/08	\$ 57,748	\$ 56,808	\$ (940)	101.7	\$ 23,488	(4.0%)
6/30/09	58,981	67,871	8,890	86.9	24,693	36.0%
6/30/10	73,401	76,447	3,047	96.0	25,709	11.9%

Actuarial Valuation Date	Annual Pension Cost	Airport Cost Funded	% ARC Funded	ARC	ARC Adjustment	Net Pension Asset (NPA) Balance	Increase (Decrease) NPA	Amortization of NPA	Interest on the NPA at 7.75%
6/30/08	\$ 4,894	\$ 4,894	100%	4,894	\$ -	\$ 4,319	\$ (300)	\$ 300	\$ 392
6/30/09	9,526	9,526	193%	4,926	4,600	4,018	4,300	300	433
6/30/10	5,000	5,000	100%	5,000	-	8,317	(556)	556	736
* 6/30/2011	6,290	6,290	100%	6,290	-	7,761	(556)	556	736

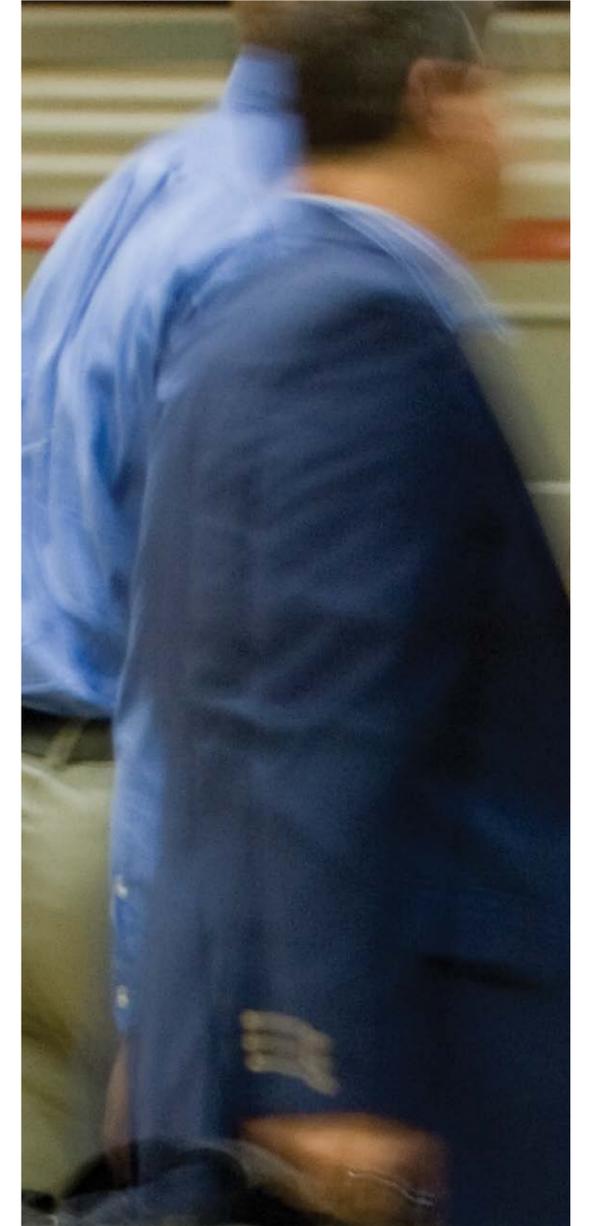
\* Per audited financials, not per actuarial valuation date.

### Note 7. Employees' Deferred Compensation Plan

The Airport Authority offers its employees a deferred compensation plan, which was created in accordance with Internal Revenue Code (IRC) Section 457. The plan, which is available to all full-time Airport Authority employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, total disability, death or unforeseeable emergency.

The plan is administered by the Airport Authority and contracted to an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are held in trust for employees.

As such, employee assets to be held in the IRC Section 457 plans are not the property of the Airport Authority and are not subject to the claims of the Airport Authority's general creditors. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*, employee assets are not reflected in the Airport Authority's financial statements.





**Notes to Financial Statements**

**Note 8. Other Postemployment Benefits**

In addition to pension benefits as described in Notes 6 and 7, the Airport Authority provides other postemployment benefits (OPEB).

The Airport Authority provides medical, dental and \$10,000 life insurance postretirement benefits for nonunion employees hired prior to May 1, 2006 and union employees hired prior to October 1, 2008. The employees are eligible for these benefits if they retire from active employment after age 55 with 20 years of service or age 62 with five years of service.

**Plan description:** As of May 8, 2009, the Board approved entering into an agreement with the California Employer's Retiree Benefit Trust (CERBT) fund. The CERBT fund is an irrevocable Section 115 trust. This is managed by California Public Employees Retirement System (CalPERS). CalPERS administers pension and health benefits for approximately 1.6 million California public employees, retirees and their families. CalPERS was founded in 1932 and is the largest public pension fund in the United States, managing more than \$1.879 billion in assets for more than 2,500 California employers. In 1988 and 2007, enabling statutes and regulations were enacted which permitted CalPERS to form the CERBT fund, a Section 115 Trust, for the purpose of receiving employer contributions that will prefund health and other postemployment benefit costs for retirees and their beneficiaries. Financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, CA 94229-2709.

**Funding policy:** CERBT requires a valuation of the liabilities and annual costs for benefits by an approved actuarial consulting firm. It is the Airport Authority's intent to budget and prefund the ARCs. As of May 9, 2009, the agreement with CERBT was approved.

**Annual OPEB cost and actuarial methods and assumptions:** The July 1, 2009 actuarial valuation for the ARC, net of the employer contribution, was \$1,713,000 for fiscal year 2011, \$1,733,000 for 2010 and \$1,429,000 for 2009. The ARC was determined as part of an actuarial evaluation using the entry-age-actuarial-cost method, with unfunded liabilities amortized over a closed 30-year amortization period, which is the method utilized by CERBT. The actuarial assumptions used by CERBT include (a) a 7.75 percent investment rate of return, net of administrative expenses, and (b) projected salary increases of 3.25 percent. The inflation component ranged from 11 percent to 5 percent from one to seven years for medical and 7 percent to 5 percent for dental.

The entry-age-normal method spreads plan costs for each participant from entry date to the expected retirement date. Under the entry-age-normal cost method, the plan's normal cost is developed as a level percentage of payroll spread over the participants' working lifetime. The actuarial accrued liability is the cumulative value, on the valuation date, of prior service costs. For retirees, the actuarial accrued liability is the present value of all projected benefits.

The plan costs are derived by making certain specific assumptions as to the rates of interest, mortality, turnover and the like, which are assumed to hold for many years into the future. Actual experience may differ somewhat from the assumptions and the effect of such differences is spread over all periods. Due to these differences, the costs determined by the valuation must be regarded as estimates of the true plan costs.

**Notes to Financial Statements**

**Note 8. Other Postemployment Benefits (Continued)**

Development of net OPEB obligation (NOO) and annual OPEB cost (dollars in thousands):

Actuarial Valuation Date	Fiscal Year	ARCs	Employer Contribution	NOO End of Year	Interest on NOO	Adjustment to the ARC	Annual OPEB Cost	Interest Rate	Salary Scale	Amortization Factor
7/1/2008	08/09	\$ 1,429	\$ 2,758	\$ (58)	\$ 97	\$ 77	\$ 1,449	7.75%	3.25%	16.3
7/1/2009	09/10	1,733	1,825	(150)	(4)	(4)	1,733	7.75%	3.25%	16.0
7/1/2010	10/11	1,791	1,791	(152)	(12)	(10)	1,789	7.75%	3.25%	15.7

Schedule of funding progress (dollars in thousands):

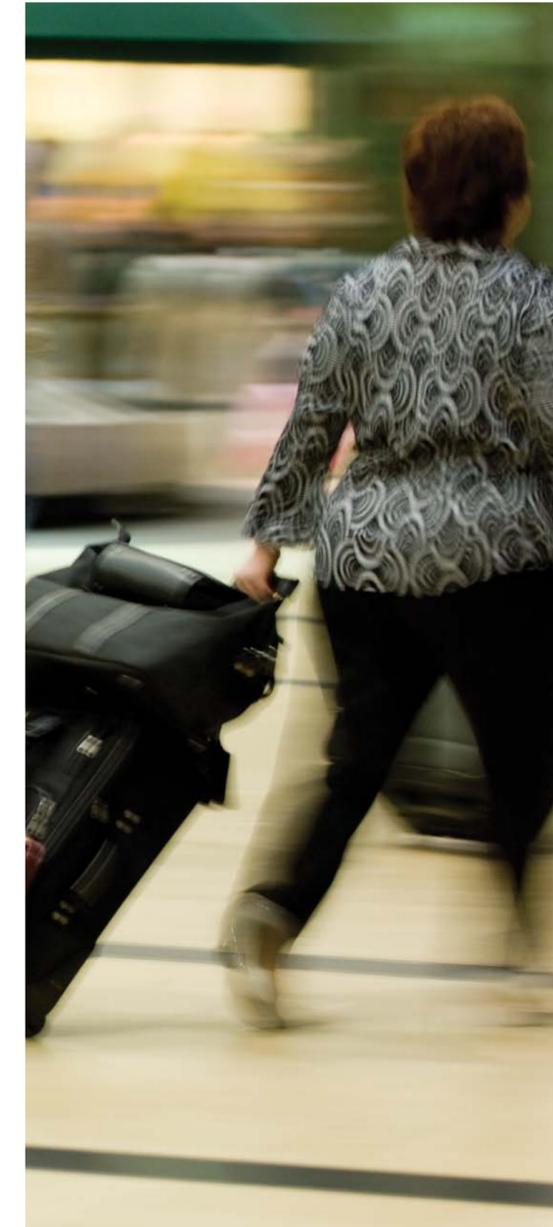
Type of Valuation	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Covered Payroll	UAAAL as a Percent of Covered Payroll	Interest Rate	Salary Scale
Update	7/1/08	\$ -	\$ 10,327	\$ 10,327	0%	\$ 19,417	53.2%	7.75%	3.25%
Actual	7/1/09	2,674	12,206	9,532	21.9%	19,514	48.8%	7.75%	3.25%
Update	7/1/10	4,474	14,149	9,675	31.6%	20,148	48.0%	7.75%	3.25%

Schedule of employer contributions (dollars in thousands):

Fiscal Year Ended	Annual OPEB Costs	Employer Contribution	Percentage Contribution	Net OPEB Asset (Obligation)
6/30/09	\$ 1,449	\$ 2,758	190.3%	\$ 58
6/30/10	1,733	1,825	105.3%	92
6/30/11	1,713	1,713	100.0%	-

**Note 9. Risk Management**

The Airport Authority has developed a comprehensive Risk Management Program, including workers' compensation, which includes risk transfer, loss prevention, loss control and claims administration. The Airport Authority maintains \$50 million in limits for primary owners' and operators' general liability insurance with a War, Hijacking and Other Perils endorsement. The war endorsement may be terminated at any time by the underwriters and terminates automatically upon the outbreak of war (whether there has been a declaration of war or not) between any two or more of the following: France, the People's Republic of China, the Russian Federation, the United Kingdom or the United States, and certain provisions of the endorsement are terminated upon the hostile detonation of any weapon of war employing atomic or nuclear fission and/or fusion or other like reaction or radioactive force or matter. The Airport Authority maintains \$450 million of general liability insurance in excess of the \$50 million primary liability coverage. The Airport Authority's coverage includes a variety of retentions or deductibles.





**Notes to Financial Statements**

**Note 9. Risk Management (Continued)**

The cost of earthquake coverage remains exorbitant and is not available in significant amounts. The Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDDA) are designed to assist public entities such as the Airport Authority in the event of a catastrophe. FEMA will pay up to 75 percent of a loss and CDDA will pay a minimum of 25 percent of the balance for nationally declared disasters. In addition, the California legislature has paid any remaining loss costs for all declared disasters since 1989. The Airport Authority in the past relied on these laws to pay loss costs beneath the attachment point for insurance coverage and above the coverage limit purchased. Effective July 1, 2007, based on the status of these laws and the condition of the insurance marketplace, the Airport Authority removed the purchase of commercial earthquake insurance from the Risk Management Program and increased reliance on the laws designed to assist public entities. As of June 30, 2011 and 2010, the Airport Authority had \$5,223,990 and \$4,349,994 respectively, for an earthquake contingency reserve. This reserve is intended to increase as deemed by management.

A \$2,000,000 contingency reserve has been established, within unrestricted net assets, by the Airport Authority's management to respond to uninsured and underinsured catastrophic losses. This fund is maintained pursuant to Board action only; there is no requirement that it be maintained.

The Airport Authority participates in an insurance purchasing program, with a \$1 billion pooled limit to provide all risk and flood coverage on physical assets. During fiscal year 2011, there were no significant reductions in insurance coverage from the prior year. For each of the past three fiscal years, settlements have not exceeded insurance coverage.

The Airport Authority has an active loss prevention program, staffed by a full-time risk manager, a risk analyst, a safety manager and a safety analyst. In addition, insurer property and casualty loss control engineers conduct safety surveys on a periodic basis. Employees receive regular safety training and claims are monitored using a Web-based claims information system.

**Note 10. Lease Revenues**

The Airport Authority leases certain of its capital assets, such as loading bridges and building space, to signatory airlines and other tenants under operating leases. A majority of the lease payments are determined each year based upon actual costs of the airport. Such costs are allocated pro rata to each tenant based upon factors such as landed weights, enplanements, square footage, acres, etc. A majority of the Airport Authority's lease commitments are on a month-to-month basis and accordingly are not reflected in the schedule below.

**Notes to Financial Statements**

**Note 10. Lease Revenues (Continued)**

The minimum future lease payments to be received under the above operating lease agreements as of June 30 are as follows:

Years Ending June 30,	Amount
2012	\$ 10,173,845
2013	7,396,982
2014	5,552,412
2015	4,485,090
2016	2,640,169
2017-2020	4,000,000
	<u>\$ 34,248,498</u>

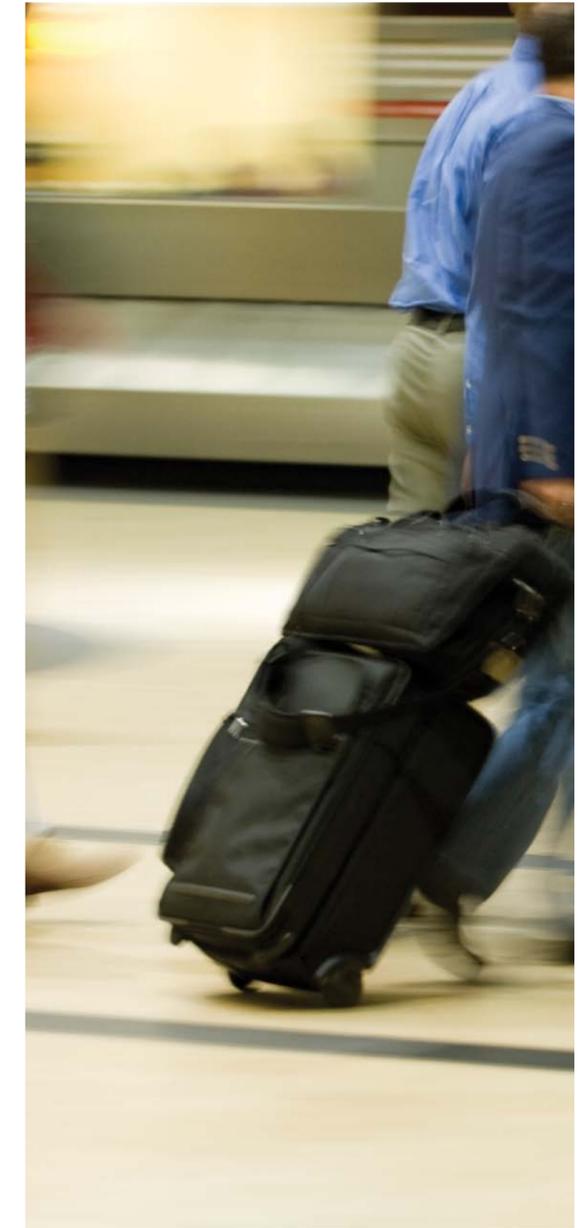
The Airport Authority entered into a five-year lease agreement on January 9, 2009 with the San Diego World Trade Center (World Trade Center) for office space, with a fair market value of \$440,000. In lieu of rental payments, the Airport Authority received a 40 percent ownership of the World Trade Center license, which has a fair market value of \$440,000. The license is an intangible asset with no expiration date, and is included in non-depreciable assets in Note 4. As of June 30, 2011 and 2010, the Airport Authority recognized lease revenue of \$86,996 for each year under the World Trade Center lease.

For the past three years the Airport Authority has planned for a new concession program at SDIA to replace the primary concession tenant whose lease will expire December 2012. The Concession Development Program (CDP) will incorporate additional concession opportunities from the Terminal 2 West, The Green Build, and Terminal 2 East expansion projects and a new concept for most of the existing locations beginning in December 2012. In February, 2011, eight food service and eight retail concession packages were released for request for proposal. When completed, the CDP will expand from the current approximately 60,000 square feet to approximately 85,000 square feet of food service and retail space. At full build-out in 2014, the number of food service and retail concession locations will increase from 55 to 86.

**Note 11. Lease Commitments**

**Capital Leases:**

**Office equipment leases:** The Airport Authority entered into capital lease agreements for office equipment that require monthly lease payments of \$14,806.





**Notes to Financial Statements**

**Note 11. Lease Commitments (Continued)**

The following is a schedule of future lease payments applicable to \$760,332 of assets capitalized under lease agreements, and the net present value of the future lease payments as of June 30, 2011:

Years Ending June 30,	Amount
2012	\$ 177,671
2013	177,671
2014	177,671
2015	25,131
Total lease payments	558,144
Less amount representing interest	(38,278)
Present value of future lease payments	<u>\$ 519,866</u>

**Operating Leases:**

**General Dynamics lease:** The Airport Authority is required, by legislation mandating the transfer of airport operations from the District, to lease from the District 89.75 acres of the former General Dynamics property on Pacific Highway adjacent to SDIA for 66 years commencing January 1, 2003. The lease agreement calls for predetermined rents through December 31, 2005, with future rents based upon a market rate established in late 2005 by an appraisal (or arbitration). The amended lease agreement calls for rent payments of \$6,750,000 annually through December 31, 2068. The Airport Authority received a credit for \$375,000 in reduced rent based on a previous lease agreement for the property in September 2006. The changes in terms for this lease were approved by the Airport Authority's Board on July 25, 2006. A portion of the land is leased to the District for employee parking for District administration building employees and is leased back by the District at the same fair market value rent paid by the Airport Authority.

**SDIA lease:** The Airport Authority is leasing from the District 480 acres of land on North Harbor Drive for \$1 per year, for 66 years, through December 31, 2068.

**Teledyne Ryan lease:** The Airport Authority is leasing from the District 46.88 acres on North Harbor Drive referred to as the Teledyne Ryan lease that commenced on January 1, 2005 and expires December 31, 2068, with \$3 million in annual rent.

**Other District leases:** The Airport Authority leases from the District three additional properties adjacent to SDIA. These properties require monthly rentals of \$86,083, \$12,521 and \$4,589 and expire in December 2013, December 2013 and April 2012, respectively. The Airport Authority received credits of \$106,452 in reduced rent based on previous lease agreements for the properties during fiscal year 2006.

On July 24, 2006, the Airport Authority's Board approved a lease with the District for the property located at 2415 Winship Lane, known as the Sky Chef property. The term of the lease is 60 years with \$350,000 in annual rent and commenced September 1, 2006.

Under current law, in the event SDIA is relocated and the District leases are no longer used by the Airport Authority for airport purposes, all District leases will terminate and use of the property will revert to the District.

**Building lease:** The Airport Authority leased modular buildings from an unrelated third party that requires monthly rental of \$1,366 through the expiration date of August, 2013.

**Notes to Financial Statements**

**Note 11. Lease Commitments (Continued)**

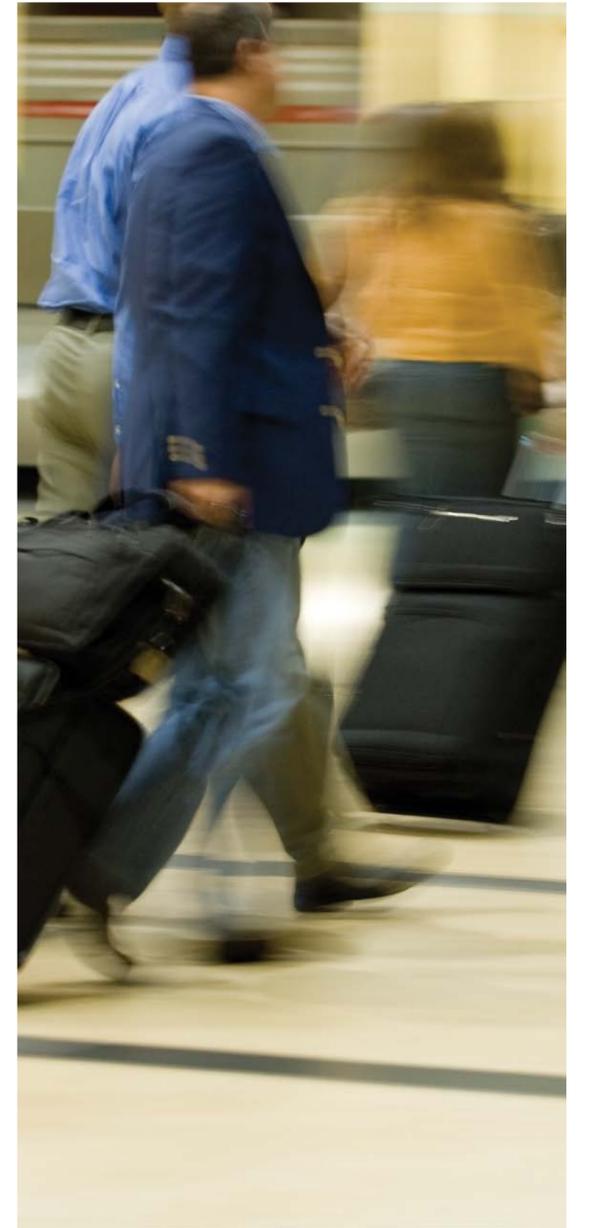
**Deferred rent (benefit) liability:** The Airport Authority accrues rent expense for its leases with predetermined escalating payments by the straight-line method over the respective lease terms. The accumulated benefit of the reduced scheduled payments of those leases is recorded as a deferred rent liability of \$0 and \$450,073 as of June 30, 2011 and 2010, respectively.

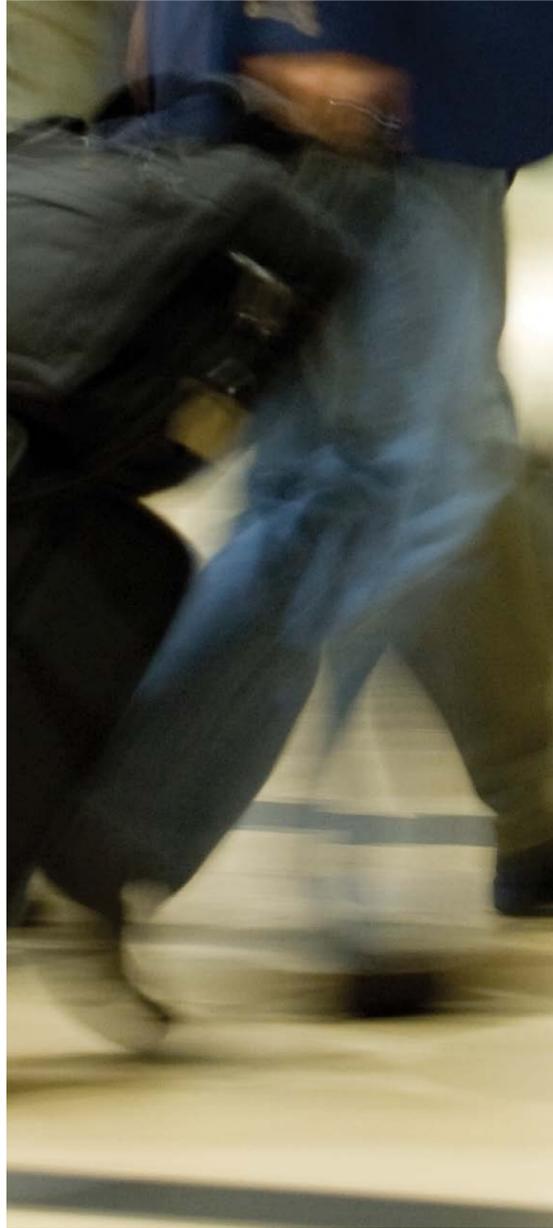
The future rental commitment under the above operating lease agreements as of June 30 are due as follows:

Years Ending June 30,	Amount
2012	\$ 11,428,105
2013	11,382,352
2014	10,741,176
2015	10,100,000
2016	10,100,000
2017-2021	50,500,000
2022-2026	50,500,000
2027-2031	50,500,000
2032-2036	50,500,000
2037-2041	50,500,000
2042-2046	50,500,000
2047-2051	50,500,000
2052-2056	50,500,000
2057-2061	50,500,000
2062-2066	50,500,000
2067-2069	25,250,000
	<u>\$584,001,633</u>

The total rental expense charged to operations for the years ended June 30 consists of the following:

	2011	2010
Rental payments made	\$ 11,356,478	\$ 11,355,972
(Decrease) in accumulated benefit of reduced rents	(450,073)	(450,073)
	<u>\$ 10,906,405</u>	<u>\$ 10,905,899</u>





## Notes to Financial Statements

### Note 12. Commitments and Contingencies

**Commitments:** As of June 30, 2011 and 2010, the Airport Authority had significant commitments for capital expenditures and other matters as described below:

- i. The Airport Authority has funds which have been classified as current assets, primarily for the unpaid contractual portion of capital projects that are currently in progress, and will not be funded by grants or additional debt, but will be funded through Airport Authority cash. These amounts are for the estimated cost of capital projects that have been authorized by the Board for construction planning to proceed and for the contractual costs of upgrading certain major equipment. At June 30, 2011 and 2010, these funds totaled \$924,568 and \$1,537,894, respectively, and are classified on the accompanying balance sheets as cash and investments designated for specific capital projects and other commitments.
- ii. Support services: As part of the MOU, services provided by the District Harbor Police are required to be purchased by the Airport Authority as long as SDIA continues to operate at Lindbergh Field. At the time of the transfer, the Airport Authority entered into a Master Services Agreement, a Police Services Agreement and a Communications Services Agreement with the District, which described the services that the Airport Authority could purchase and the manner of calculating the payments for such services. The largest amount that became payable under any of these agreements is under the Police Services Agreement, which is for Harbor Police services. The District provided monthly billings to the Airport Authority, with payment generally due 30 days after the date of the invoice, and provision of appropriate supporting documentation. During the years ended June 30, 2011 and 2010, the Airport Authority expensed \$14,132,510 and \$13,467,406, respectively, for these services.
- iii. In addition, the Airport Authority has a profit sharing plan as defined under Section 401(a) of the IRC. Under the plan, eligible employees receive annual discretionary employer contributions. Airport Authority contributions are immediately vested by the participants. For fiscal years 2011 and 2010, \$150,000 and \$145,000 were deposited, respectively.
- iv. Major contracts:
  - During 2007 the Airport Authority Board approved a contract with The Jones Payne Group for \$30 million for on-call architectural and engineering consultant services and support services associated with the capital improvement and airport master plan programs. At June 30, 2011, approximately \$15.9 million had been spent and the remaining contract is due to be completed during fiscal year 2012.
  - During 2006 the Airport Authority Board approved a contract with AECOM Aviation for \$37.8 million for program management and support services associated with the capital improvement program, major maintenance program and airport master plan program. The Board approved additional increases totaling \$43.9 million in fiscal years 2009 and 2010. In 2011, the Board approved \$45 million additional funds and approximately \$85.2 million had been spent to date. The remaining contract is due to be completed during fiscal year 2014.

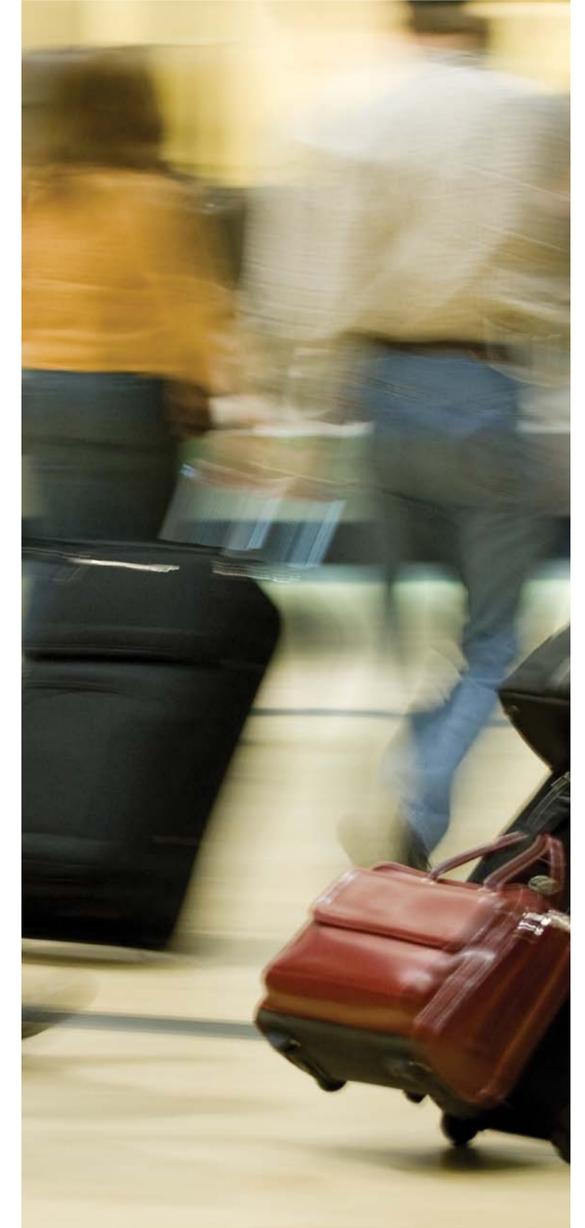
## Notes to Financial Statements

### Note 12. Commitments and Contingencies (Continued)

- In 2009 the Board approved two design-build contracts for the Terminal Expansion Program, or The Green Build. The program is estimated to cost \$864 million. The Green Build began in fiscal year 2010 and the projected completion date is 2013. The Green Build provides for 10 additional passenger gates, a new dual-level roadway at Terminal 2 and additional aircraft remain-overnight parking areas. The first Green Build contract was approved for the Terminal 2 West Building and Airside Expansion to Turner/PCL/FCI Joint Venture for \$14 million. Additional amounts were approved in fiscal years 2009, 2010 and 2011, for \$110.4 million, \$228 million and \$79 million respectively. As of June 30, 2011, \$132.1 million had been spent and the contract is due to be completed during fiscal year 2013.
- The second contract awarded was for the Terminal 2 Landside Improvements with the Kiewit/Sundt Joint Venture for \$43.8 million approved in 2009 and additional approvals in 2010 and 2011 for \$76.2 million and \$135 million respectively. As of June 30, 2011, \$58.2 million had been spent for the Kiewit/Sundt Joint Venture contract. This contract is scheduled for completion in fiscal year 2013.

**Contingencies:** As of June 30, 2011, the Airport Authority is subject to contingencies arising from legal matters as described below:

The Airport Authority has leases and operating agreements with various tenants. These agreements typically include provisions requiring the tenant/operators to indemnify the Airport Authority for any damage to property or losses to the Airport Authority as a result of the tenant's operations. Also, the leases and operating agreements typically require the Airport Authority to be named as an additional insured under certain insurance policies of the tenants/operators. The Airport Authority also tenders these claims to its own insurers once they become asserted claims. Thus, according to the Airport Authority's legal counsel, when these types of claims are asserted against the Airport Authority, the Airport Authority not only vigorously opposes them but also vigorously seeks contribution and/or indemnity from all tenants/operators involved, from the tenants'/operators' insurers and from its own insurers. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to these matters, or the probability or remoteness of any outcome.





## Notes to Financial Statements

### Note 12. Commitments and Contingencies (Continued)

#### Teledyne Ryan Industries, Inc. (TDY)/Allegheny Technologies Inc. and San Diego Unified Port District

The former TDY property consists of approximately 47 acres of property located at 2701 N. Harbor Drive, San Diego, California. During 2004 the Airport Authority initiated litigation against the District. The litigation (State Court Case 779490 and Federal Case 3:03CV1146) has concluded and resulted in a comprehensive settlement agreement between the District, the Airport Authority and TDY. The property is still the subject of a Cleanup and Abatement Order (CAO) that names TDY as the only responsible party for the contamination on the site.

**CAO No. R9-2004-0258:** This action is ongoing and involves an order by the California Regional Water Quality Control Board, San Diego Region, entitled CAO No. R9-2004-0258, Code No. ICU:02-0381.05 for TDY Industries, Inc., TDY Holdings, LLC, Teledyne Ryan Aeronautical Company and Allegheny Technologies Incorporated, 2701 North Harbor Drive, San Diego, California, dated October 4, 2004, ordering the cleanup and abatement of the Property pursuant to California Water Code Section 13304. The demolition of the buildings and improvements currently located on the property are the joint financial responsibility of the District and the Airport Authority. The Airport Authority's share of the cost is estimated to be \$7 million and will result in the creation of a long-term capital asset. As a result, the Airport Authority will capitalize its share of the demolition costs as these costs are incurred.

#### Accurate Engineering Integrated Construction Services, Inc.

Accurate Engineering Integrated Construction Services, Inc. (AEICS) and the Airport Authority entered into a contract dated June 16, 2010 for work related to the Authority's Quieter Home Program (QHP), Project 380506 (the Contract). On June 13, 2011, the Authority gave AEICS a Notice of Default for failure to comply with the Contract terms and provided AEICS until June 28, 2011 to cure. On June 20, 2011, AEICS requested an extension to the cure date, and while the Authority was not legally required to grant the extension, agreed to the extension based upon AEICS' representation that it could complete all outstanding items by July 29, 2011. On July 29, 2011, AEICS had not cured all of the outstanding items and continued in default. On August 4, 2011, the Airport Authority terminated the Contract for cause. AEICS has filed claims under the contract alleging that the termination is improper. No lawsuit has been filed. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

## Notes to Financial Statements

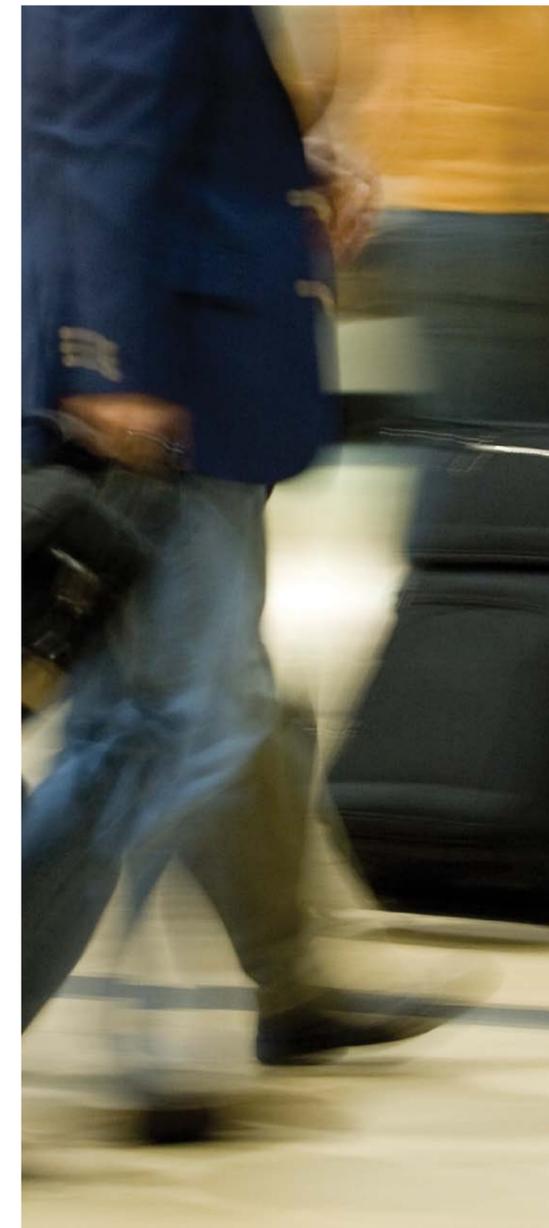
### Note 12. Commitments and Contingencies (Continued)

#### West-Tech Contracting, Inc. v. San Diego County Regional Airport Authority (San Diego Superior Court Case No. 37-2010-00106565CU-BC-CTL)

In April 2008, the Airport Authority entered into a public works contract with West-Tech for Project No. 103044-NTC Landfill Remediation-Phase 2 (the Landfill Contract) for the remediation of burn ash and other material at the old Naval Training Center. On June 25, 2010, West-Tech Contracting, Inc. (West-Tech) filed a claim pursuant to Government Code §910 alleging damages in the amount of approximately \$1,500,000 resulting from an alleged breach of contract by the Airport Authority. West-Tech alleges that the Airport Authority breached the Landfill Contract because: (1) it refused to allow West-Tech to use a landfill that West-Tech believed met the specifications set forth in the Landfill Contract and (2) the estimated amount of burn ash identified in the Landfill Contract as requiring removal was grossly underestimated; (3) West Tech was owed interest on late payments; (4) West Tech was owed attorneys fees on retention. On December 22, 2010, West Tech filed a lawsuit for breach of contract and declaratory relief. The claims in the lawsuit mirror the claims set forth in the claim filed pursuant to the Government Code. The Authority disputes all allegations. The Authority answered the complaint and filed a cross-complaint against West Tech for violations of the False Claims Act. The court has set a trial date of January 13, 2012. The Authority filed a Motion for Summary Adjudication/Motion for Summary Judgment seeking dismissal of the claims. The parties are engaged in discovery. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.

#### Theresa M. Hopkins, Warren B. Hopkins, Carl W. Hopkins

On June 9, 2011, the Airport Authority received a claim pursuant to Government Code §910 alleging damages arising from the death of Wayne Hopkins. Wayne Hopkins was employed by the Airport Authority from April 1, 2005 until December 10, 2010. While employed by the Airport Authority, Mr. Hopkins' office was located on the TDY site from April 2008 until December 2010. Before being employed by the Airport Authority, Mr. Hopkins worked for the Port District and Teledyne Ryan where his office was located on the TDY site. Mr. Hopkins worked for TDY for approximately 30 years. The claim alleges that Wayne Hopkins was wrongfully exposed to toxic material while he worked at the Teledyne Ryan Aeronautical Facility located at 2701 North Harbor Drive. As a result of the exposure, he developed Non-Hodgkin's Lymphoma which caused his death on December 12, 2010. The claim seeks damages exceeding \$3 million. The Airport Authority Board denied the claim on July 7, 2011. The Airport Authority's legal counsel cannot predict the net exposure to the Airport Authority with respect to this matter, or the probability or remoteness of any outcome.





## STATISTICAL SECTION

### Statistical Section (Unaudited)

The Statistical Section is divided into five areas: financial trend data; revenue capacity data; operating information; demographic and economic information, and debt capacity data.

**Financial Trend** data which shows changes in the Authority's financial position since inception:

- Authority operating revenues and expenses
- Authority net assets by component
- Authority change in net assets
- Authority largest sources of revenue

**Revenue Capacity** data which shows the Authority's major revenue sources and changes in key rates and charges:

- Authority landing rate fee
- Terminal rates billed to airlines
- Airline cost per enplaned passenger

**Operating Information** shows how the airport is performing on an annual basis and within the airport market sector:

- Authority employee strength
- Aircraft operations
- Aircraft landed weights
- Aircraft landed weights by airline
- Passenger enplanements
- Enplanement market share by airline by fiscal year
- Growth in enplaned passengers, SDIA vs. US

**Economic Information** shows the major drivers of usage and how the airport service area is performing compared to the region and the nation:

- Population and per capita personal income
- Principal employers in San Diego County
- San Diego County employment by industry
- Labor force, employment, unemployment and unemployment rates

**Debt Information** shows how the Authority is performing meeting its debt obligations and the relative level of debt:

- Revenue bond debt service coverage
- Revenue bond debt per enplaned passenger
- Capital assets



**Exhibit S-1**  
 Authority Revenues and O&M Expenses (\$000)  
 Fiscal Years Ended June 30,

Operating Revenues		2004	2005	2006	2007	2008	2009	2010	2011
Airline revenue									
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579	
Aircraft parking fees	-	-	-	-	-	3,221	3,406	2,921	
Building rentals	19,511	18,041	21,137	22,495	24,265	23,057	23,835	26,980	
Security surcharge	-	7,800	7,759	8,441	8,619	10,204	11,900	14,886	
Other aviation revenue	1,812	1,757	1,868	1,757	1,808	1,565	1,585	1,597	
Concession revenue	24,571	26,552	29,362	34,201	38,785	36,280	36,249	37,103	
Parking and ground transportation revenue	21,986	23,723	26,904	28,392	31,038	31,492	30,296	31,645	
Ground rentals	4,269	5,294	5,505	4,994	5,207	5,776	5,923	8,656	
Other operating revenue	1,549	2,349	4,717	1,081	1,197	693	1,829	1,640	
<b>Total Operating Revenues</b>	<b>\$ 96,572</b>	<b>\$ 108,123</b>	<b>\$ 119,495</b>	<b>\$ 125,367</b>	<b>\$ 135,682</b>	<b>\$ 130,977</b>	<b>\$ 133,695</b>	<b>\$ 144,007</b>	
Operating Expenses Before Depreciation		2004	2005	2006	2007	2008	2009	2010	2011
Salaries and benefits	\$ 21,955	\$ 23,623	\$ 26,847	\$ 28,333	\$ 32,912	\$ 34,741	\$ 35,386	\$ 38,267	
Contractual services	19,462	25,210	31,967	26,391	27,378	27,464	27,999	26,113	
Safety and security	13,450	16,191	14,777	15,946	19,110	19,930	20,131	21,344	
Space rental	8,826	10,174	11,353	10,842	10,901	10,888	10,906	10,906	
Utilities	4,914	5,121	5,416	6,421	6,430	6,912	6,871	6,413	
Maintenance	5,343	4,050	5,390	8,393	8,735	8,002	9,231	8,174	
Equipment and systems	1,019	710	736	980	1,333	678	891	570	
Materials and supplies	462	461	591	762	795	641	413	345	
Insurance	2,518	2,425	1,162	1,999	1,227	1,096	1,166	1,066	
Employee development and support	981	1,050	906	909	1,035	1,030	990	1,041	
Business development	2,067	1,646	1,329	2,096	2,733	2,509	2,033	2,275	
Equipment rentals and repairs	636	708	882	1,479	1,396	1,387	1,271	1,327	
<b>Total Operating Expenses Before Depreciation</b>	<b>\$ 81,633</b>	<b>\$ 91,369</b>	<b>\$ 101,356</b>	<b>\$ 104,551</b>	<b>\$ 113,985</b>	<b>\$ 115,278</b>	<b>\$ 117,288</b>	<b>\$ 117,841</b>	

Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

**Exhibit S-2**  
 Authority Net Assets by Component (\$000)  
 Fiscal Years Ended June 30,

	2004	2005	2006	2007	2008	2009	2010	2011
Invested in capital assets, net of related debt	\$ 244,889	\$ 209,714	\$ 219,218	\$ 236,762	\$ 238,144	\$ 249,498	\$ 275,557	\$ 357,275
Other restricted	16,670	83,854	96,633	103,787	136,548	167,827	139,672	147,513
Unrestricted	106,125	102,652	117,940	124,984	120,429	95,858	145,224	102,466
<b>Total Net Assets</b>	<b>\$ 367,684</b>	<b>\$ 396,220</b>	<b>\$ 433,791</b>	<b>\$ 465,533</b>	<b>\$ 495,121</b>	<b>\$ 513,183</b>	<b>\$ 560,452</b>	<b>\$ 607,254</b>

Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

FINANCIAL TREND

**Exhibit S-3**  
 Authority Change in Net Assets (\$000)  
 Fiscal Years Ended June 30,

	2004	2005	2006	2007	2008	2009	2010	2011
Operating revenues:								
Airline revenue:								
Landing fees	\$ 22,874	\$ 22,607	\$ 22,243	\$ 24,006	\$ 24,763	\$ 18,689	\$ 18,672	\$ 18,579
Aircraft parking fees	-	-	-	-	-	3,221	3,406	2,921
Building rentals	19,511	18,041	21,137	22,495	24,265	23,057	23,835	26,980
Security surcharge	-	7,800	7,759	8,441	8,619	10,204	11,900	14,886
Other aviation revenue	1,812	1,757	1,868	1,757	1,808	1,565	1,584	1,597
Concession revenue	24,571	26,552	29,362	34,201	38,785	36,280	36,249	37,103
Parking and ground transportation revenue	21,986	23,723	26,904	28,392	31,038	31,492	30,296	31,645
Ground rentals	4,269	5,294	5,505	4,994	5,207	5,776	5,923	8,656
Other operating revenue	1,549	2,349	4,717	1,081	1,197	693	1,829	1,640
<b>Total operating revenues</b>	<b>96,572</b>	<b>108,123</b>	<b>119,495</b>	<b>125,367</b>	<b>135,682</b>	<b>130,977</b>	<b>133,695</b>	<b>144,007</b>
Operating expenses:								
Salaries and benefits	21,955	23,623	26,847	28,333	32,912	34,741	35,386	38,267
Contractual services	19,462	25,210	31,967	26,391	27,378	27,464	27,999	26,113
Safety and security	13,450	16,191	14,777	15,946	19,110	19,930	20,131	21,344
Space rental	8,826	10,174	11,353	10,842	10,901	10,888	10,906	10,906
Utilities	4,914	5,121	5,416	6,421	6,430	6,912	6,871	6,413
Maintenance	5,343	4,050	5,390	8,393	8,735	8,002	9,231	8,174
Equipment and systems	1,019	710	736	980	1,333	678	891	570
Materials and supplies	462	461	591	762	795	641	413	345
Insurance	2,518	2,425	1,162	1,999	1,227	1,096	1,166	1,066
Employee development and support	981	1,050	906	909	1,035	1,030	990	1,041
Business development	2,067	1,646	1,329	2,096	2,733	2,509	2,033	2,275
Equipment rentals and repairs	636	708	882	1,479	1,396	1,387	1,271	1,327
<b>Total operating expenses before depreciation and amortization</b>	<b>81,633</b>	<b>91,369</b>	<b>101,356</b>	<b>104,551</b>	<b>113,985</b>	<b>115,278</b>	<b>117,288</b>	<b>117,841</b>
Income from operations before depreciation and amortization	14,939	16,754	18,139	20,816	21,697	15,699	16,407	26,166
Depreciation and amortization	32,993	29,699	31,559	33,468	36,764	38,196	42,424	49,138
<b>Operating (loss)</b>	<b>(18,054)</b>	<b>(12,945)</b>	<b>(13,420)</b>	<b>(12,652)</b>	<b>(15,067)</b>	<b>(22,497)</b>	<b>(26,018)</b>	<b>(22,972)</b>
Nonoperating revenues (expenses):								
Passenger facility charges	31,241	33,710	34,981	36,452	37,401	33,219	34,049	33,998
Customer facility charges	-	-	-	-	-	1,695	10,783	10,986
Quieter Home Program, net	(1,375)	(1,582)	(908)	(3,092)	(3,990)	(5,573)	(1,629)	(3,359)
Joint Studies Program	-	-	(688)	(120)	(963)	(180)	(244)	(129)
Interest income	3,831	6,413	9,306	11,969	13,431	9,434	6,667	6,408
Interest expense	(4,294)	(4,387)	(4,809)	(4,683)	(4,086)	(2,998)	(2,684)	(8,084)
"Build America Bonds" Rebate	-	-	-	-	12	316	-	3,691
<b>Other revenues (expenses), net</b>	<b>5,530</b>	<b>(195)</b>	<b>964</b>	<b>(3,282)</b>	<b>12</b>	<b>316</b>	<b>(1,004)</b>	<b>(92)</b>
Nonoperating revenue, net	34,933	33,959	38,846	37,244	41,805	35,913	45,937	43,419
Income before capital grant contribution:	16,879	21,014	25,426	24,592	26,738	13,416	19,919	20,447
Capital grant contributions	5,033	7,522	12,145	7,150	2,850	4,646	27,350	26,355
<b>Change in Authority net assets</b>	<b>21,912</b>	<b>28,536</b>	<b>37,571</b>	<b>31,742</b>	<b>29,588</b>	<b>18,062</b>	<b>47,270</b>	<b>46,802</b>
Authority net assets, beginning of year	345,772	367,684	396,220	433,791	465,533	495,121	513,183	560,452
<b>Authority net assets, end of year</b>	<b>\$ 367,684</b>	<b>\$ 396,220</b>	<b>\$ 433,791</b>	<b>\$ 465,533</b>	<b>\$ 495,121</b>	<b>\$ 513,183</b>	<b>\$ 560,452</b>	<b>\$ 607,254</b>

Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

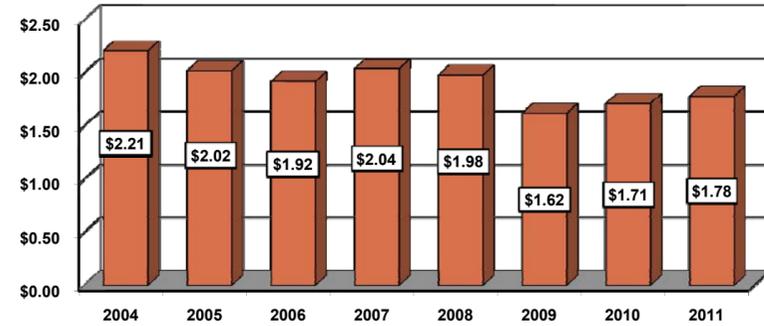
**Exhibit S-4**  
 Authority Largest Sources of Revenues (\$)  
 Fiscal Years Ended June 30,

Tenant	2004	2005	2006	2007	2008	2009	2010	2011	2011 % of Total Operating Revenue
Southwest Airlines	\$ 10,692,447	\$ 12,767,378	\$ 13,464,404	\$ 15,624,767	\$ 16,920,722	\$ 17,658,629	\$ 19,428,103	\$ 21,306,108	14.8%
Host International	7,106,523	8,038,435	9,147,356	9,808,385	10,875,857	9,883,713	9,907,860	10,360,436	7.2%
United Airlines	4,989,506	5,877,927	5,717,234	6,623,373	6,522,426	6,344,127	7,905,284	9,280,812	6.4%
Delta Airlines	4,774,243	5,010,848	4,876,095	5,347,415	5,168,634	4,647,333	6,663,671	8,003,895	5.6%
American Airlines	7,772,143	8,472,274	10,191,557	8,303,616	7,750,147	5,543,732	7,693,564	7,611,443	5.3%
Hertz Rent-A-Car	4,901,573	5,316,755	5,979,512	6,728,571	6,860,949	5,816,230	5,861,737	5,635,151	3.9%
Enterprise Rent-A-Car	858,956	1,084,031	2,888,849	2,007,684	2,530,192	2,501,720	2,517,682	4,431,129	1.7%
US Airways	699,542	672,643	571,874	1,714,362	4,048,246	3,478,789	3,756,383	3,899,253	2.7%
Continental Airlines	1,849,721	2,123,291	2,364,096	2,995,689	3,314,090	3,026,644	3,502,608	3,858,514	2.7%
Avis Budget Rent-A-Car Group	3,103,562	4,966,532	6,002,357	4,465,182	6,193,565	5,505,770	3,378,607	3,842,594	2.7%

Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

FINANCIAL TREND

**Exhibit S-5**  
 Authority Landing Fee Rate (\$ per 1,000 lbs.)  
 Fiscal Years Ended June 30,



Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

Landing Fees are the revenues from passenger and cargo air carriers for landing aircraft at SDIA.

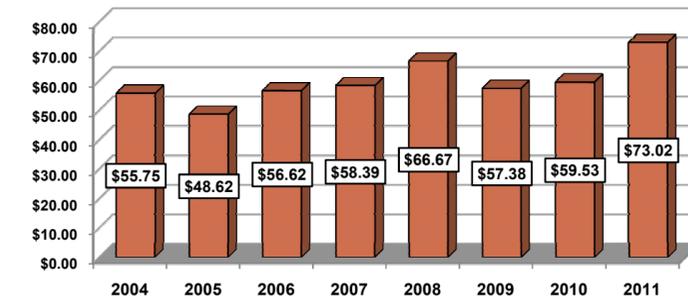


**Exhibit S-6**  
 Terminal Rates Billed to Airlines  
 Fiscal Years Ended June 30,

Fiscal Year	Terminal Rates Per Square Foot*	% Change
2004	\$55.75	14.2 %
2005	\$48.62	(12.8)%
2006	\$56.62	16.5 %
2007	\$58.39	3.1 %
2008	\$66.67	14.2 %
2009	\$57.38	(13.9)%
2010	\$59.53	3.7 %
2011	\$73.02	22.7 %

\*Net of janitorial credit

Terminal Rate Per Square Foot



Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

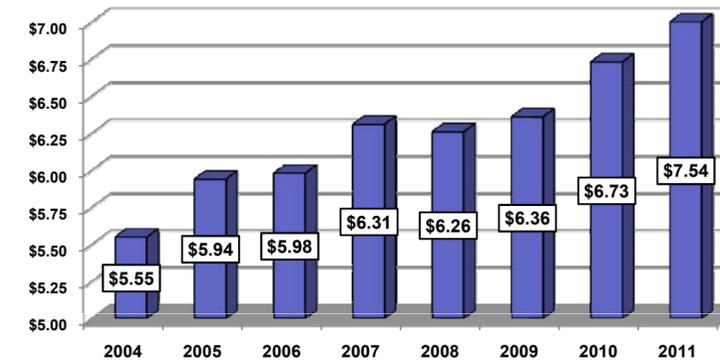
Terminal Rates are rates billed to airlines for the rent of terminal space per square foot. Beginning with FY 2005, the Security Surcharge was excluded from Terminal Rates and charged separately.



**Exhibit S-7**  
 Airline Cost per Enplaned Passenger  
 Fiscal Years Ended June 30,

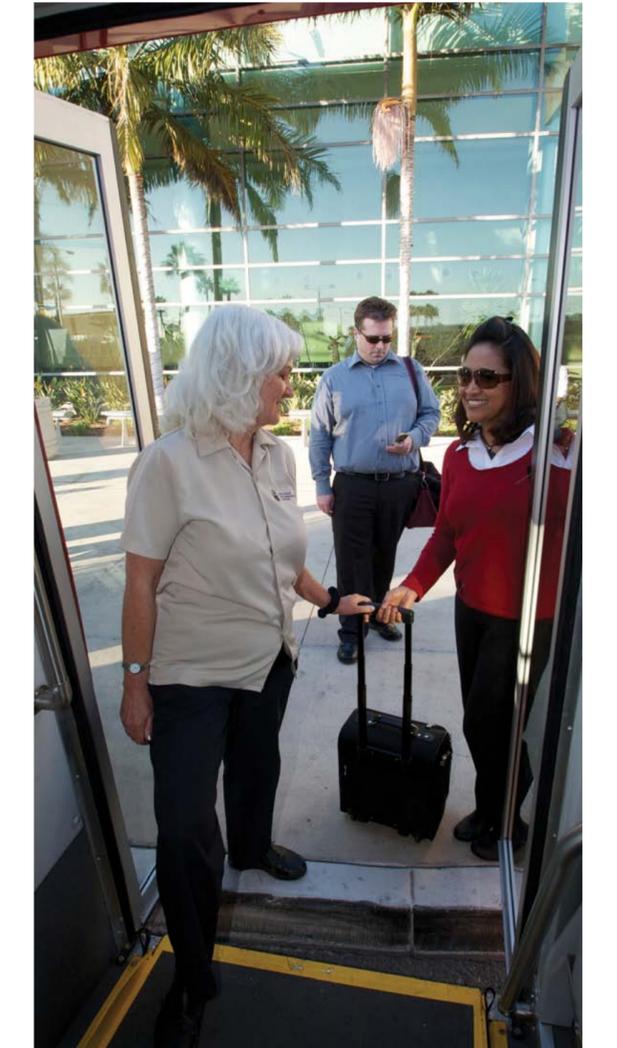
Fiscal Year	Enplaned Passengers	Cost per Enplaned Passenger
2004	7,947,740	\$5.55
2005	8,449,107	\$5.94
2006	8,749,734	\$5.98
2007	8,892,069	\$6.31
2008	9,389,327	\$6.26
2009	8,535,774	\$6.36
2010	8,453,886	\$6.73
2011	8,441,120	\$7.54

Cost per Enplaned Passenger



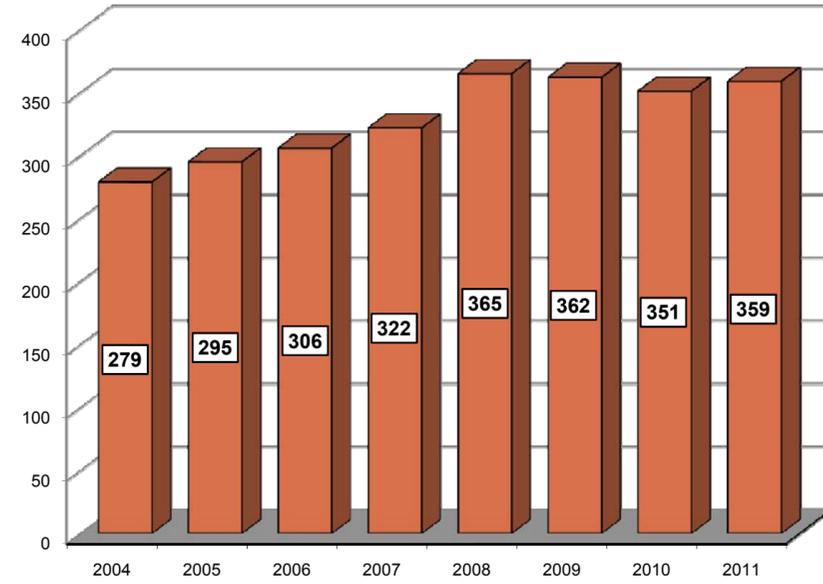
Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

Airline Cost per Enplaned Passenger is the total annual cost of fees and charges paid by the airlines divided by the total fiscal year enplanements.





**Exhibit S-8**  
 Authority Employee Headcount  
 Fiscal Years Ended June 30,



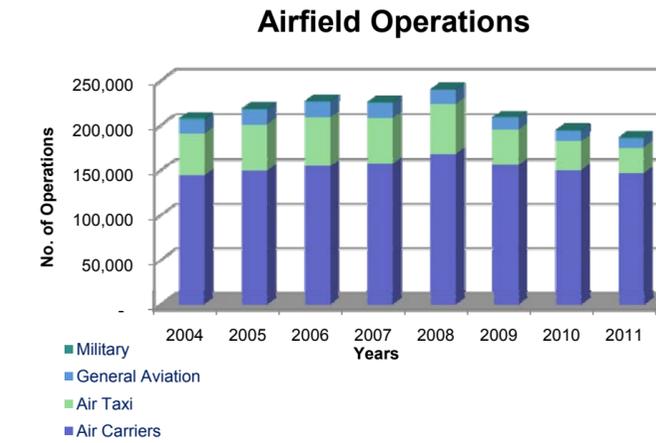
Source: San Diego County Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

The Airport Authority does not have part-time employees. This chart reflects the average number of employees for the fiscal years shown above.

**Exhibit S-9**  
 Aircraft Operations (Takeoffs and Landings)  
 Fiscal Years Ended June 30,

Fiscal Year	Air Carriers	Air Taxi	General Aviation	Military	Total
2004	144,156	46,418	15,080	1,761	207,415
2005	148,975	51,377	17,069	1,094	218,515
2006	154,092	54,156	17,383	1,121	226,752
2007	157,198	50,068	17,195	983	225,444
2008	167,753	55,373	16,123	1,040	240,289
2009	155,766	39,122	12,721	1,174	208,783
2010	149,718	32,100	11,674	1,017	194,509
2011	146,215	28,273	10,938	755	186,181

Source: FAA ATADS Report: Air Operations Standard Report (itinerant only)  
 Information presented reflects those years that the Authority was in operation.

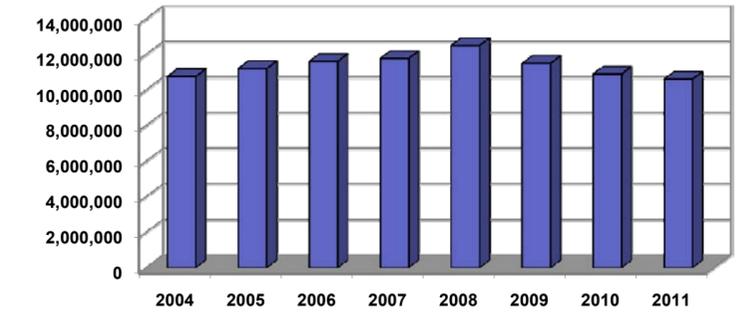


**Aircraft operations** are the takeoffs and landings at SDIA. They represent the level of demand for air service by the airlines operating at SDIA.

**Exhibit S-10**  
 Aircraft Landed Weight  
 Fiscal Years Ended June 30,

Fiscal Year	Aircraft Landed Weight in 1000lbs	% Change
2004	10,748,648	(0.9)%
2005	11,200,204	4.2 %
2006	11,604,873	3.6 %
2007	11,773,957	1.5 %
2008	12,501,191	6.2 %
2009	11,496,758	(8.0)%
2010	10,892,867	(5.3)%
2011	10,606,160	(2.6)%

**Aircraft Landed Weights (000 lbs)**



Source: San Diego Regional Airport Authority  
 Information presented reflects those years that the Authority was in operation.

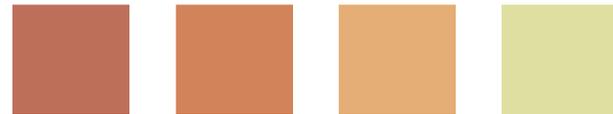
**Landed Weight** is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual. Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.

**Exhibit S -11**  
Landed Weights by Airline (Thousand pounds)  
Fiscal Years Ended June 30,

Airline	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
	Landed Weights	% of Total														
Southwest	3,418,786	31.8%	3,570,052	31.9%	3,768,374	32.5%	3,956,170	33.6%	4,416,996	35.3%	4,415,780	38.4%	4,068,974	37.4%	4,001,530	37.7%
United	1,192,898	11.1%	1,278,347	11.4%	1,269,465	10.9%	1,270,371	10.8%	1,222,906	9.8%	1,148,637	10.0%	1,147,561	10.5%	1,075,569	10.1%
Delta	963,140	9.0%	927,763	8.3%	850,348	7.3%	798,104	6.8%	839,172	6.7%	713,622	6.2%	893,467	8.2%	1,062,254	10.0%
American	1,045,382	9.7%	1,009,498	9.0%	1,089,872	9.4%	961,143	8.2%	890,796	7.1%	848,513	7.4%	888,844	8.2%	672,059	6.3%
US Airways	307,919	2.9%	298,983	2.7%	250,303	2.2%	391,358	3.3%	713,030	5.7%	684,354	6.0%	610,330	5.6%	595,570	5.6%
Alaska Airlines	574,698	5.3%	605,435	5.4%	616,552	5.3%	668,390	5.7%	612,282	4.9%	536,281	4.7%	511,813	4.7%	595,238	5.6%
Continental	441,702	4.1%	454,189	4.1%	497,929	4.3%	533,322	4.5%	538,786	4.3%	521,842	4.5%	514,981	4.7%	507,803	4.8%
Federal Express	343,931	3.2%	384,702	3.4%	445,744	3.8%	456,152	3.9%	447,636	3.6%	402,665	3.5%	400,303	3.7%	421,239	4.0%
Skywest	239,521	2.2%	247,215	2.2%	251,902	2.2%	246,559	2.1%	195,777	1.6%	219,416	1.9%	332,404	3.1%	338,813	3.2%
Frontier Airlines	176,080	1.6%	194,758	1.7%	246,749	2.1%	283,898	2.4%	287,387	2.3%	237,274	2.1%	227,848	2.1%	225,890	2.1%
American Eagle	341,205	3.2%	335,439	3.0%	338,424	2.9%	321,712	2.7%	280,234	2.2%	280,413	2.4%	131,394	-	174,888	1.6%
Virgin America	-	-	-	-	-	-	-	-	3,122	0.0%	221,333	1.9%	205,348	1.9%	173,686	1.6%
JetBlue	144,191	1.3%	123,145	1.1%	174,337	1.5%	175,333	1.5%	288,239	2.3%	297,340	2.6%	201,071	1.8%	167,369	1.6%
Hawaiian	135,040	1.3%	145,920	1.3%	145,920	1.3%	211,840	1.8%	235,200	1.9%	137,145	1.2%	121,600	1.1%	134,080	1.3%
Northwest	352,928	3.3%	363,268	3.2%	315,608	2.7%	326,140	2.8%	334,692	2.7%	294,147	2.6%	153,829	-	-	0.0%
<b>Subtotal</b>	<b>9,677,421</b>	<b>90.0%</b>	<b>9,938,714</b>	<b>88.7%</b>	<b>10,261,527</b>	<b>88.4%</b>	<b>10,600,492</b>	<b>90.0%</b>	<b>11,306,255</b>	<b>90.4%</b>	<b>10,958,762</b>	<b>95.3%</b>	<b>10,409,767</b>	<b>95.6%</b>	<b>10,145,988</b>	<b>96%</b>
All Others	1,071,227	10.0%	1,261,490	11.3%	1,343,346	11.6%	1,173,465	10.0%	1,195,236	9.6%	537,996	4.7%	483,100	4.4%	460,172	4.3%
<b>TOTAL</b>	<b>10,748,648</b>	<b>100.0%</b>	<b>11,200,204</b>	<b>100.0%</b>	<b>11,604,873</b>	<b>100.0%</b>	<b>11,773,957</b>	<b>100.0%</b>	<b>12,501,491</b>	<b>100.0%</b>	<b>11,496,758</b>	<b>100.0%</b>	<b>10,892,867</b>	<b>100.0%</b>	<b>10,606,160</b>	<b>100.0%</b>
Annual % Change	(0.9%)		4.2%		3.6%		1.5%		6.2%		(8.0%)		(5.3%)		(2.6%)	

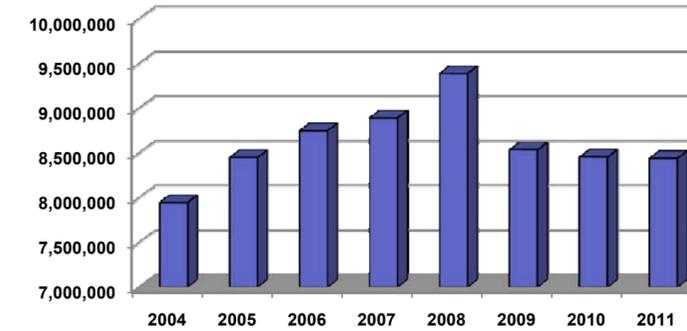
Source: San Diego County Regional Airport Authority  
Information presented reflects those years that the Authority was in operation.

Charter airlines are included in the landed weights of the carriers that service them.  
Landed weight is the maximum gross certificated landed weight in one thousand pound units as stated in the airlines' flight operational manual.  
Landed weight is used to calculate landing fees for both airline and general aviation aircraft operated at the airport.



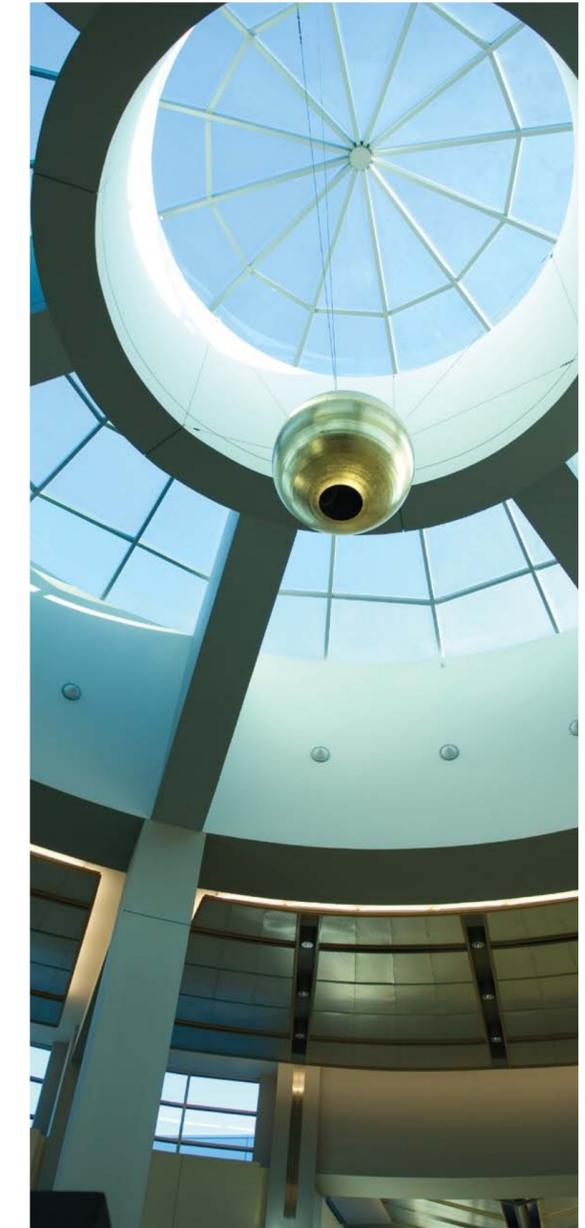
**Exhibit S-12**  
Passenger Enplanements  
Fiscal Years Ended June 30,

Fiscal Year	Passenger Enplanements	% Change
2004	7,947,440	5.9%
2005	8,449,107	5.9%
2006	8,749,734	3.6%
2007	8,892,069	1.6%
2008	9,389,327	5.6%
2009	8,535,774	(9.1%)
2010	8,453,886	(1.0%)
2011	8,441,120	(0.2%)



Source: San Diego County Regional Airport Authority  
Information presented reflects those years that the Authority was in operation.

**Enplaned passenger** is any revenue passenger boarding at the airport, including any passenger that previously disembarked from another aircraft (i.e. connecting passenger).



**Exhibit S-13**

Enplanement Market Share by Airline by Fiscal Year  
Fiscal Years Ended June 30,

Air Carrier	2004		2005		2006		2007		2008		2009		2010		2011		% Change 2011 vs. 2010
	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	Enplane-ments	Share	
Aeromexico	47,533	0.6%	49,488	0.6%	58,969	0.7%	39,518	0.4%	32,223	0.3%	27,772	0.3%	24,335	0.3%	-	-	-
Air Canada	-	-	-	-	-	-	55,398	0.6%	55,031	0.6%	27,255	0.3%	46,959	0.6%	58,539	0.7%	24.7%
Alaska	439,430	5.5%	476,395	5.6%	492,891	5.6%	536,784	6.0%	498,169	5.3%	428,515	5.0%	435,722	5.2%	514,498	6.1%	18.1%
Aloha	-	-	29,051	0.3%	41,882	0.5%	33,620	0.4%	-	-	-	-	-	-	-	-	-
America West	450,256	5.7%	466,615	5.5%	451,904	5.2%	374,072	-	78,298	-	-	-	-	-	-	-	-
American	831,823	10.5%	879,144	10.4%	968,832	11.1%	873,624	9.8%	808,790	8.6%	735,067	8.6%	704,909	8.3%	658,752	7.8%	(6.5)%
AirTran Airways	-	-	-	-	-	-	7,983	0.1%	97,937	1.0%	66,475	0.8%	37,530	0.4%	17,978	0.2%	(52.1)%
British Airways	16,756	0.2%	-	-	-	-	-	-	-	-	-	-	-	-	6,912	0.1%	-
Continental	354,114	4.5%	401,803	4.8%	454,699	5.2%	503,189	5.7%	520,856	5.5%	503,242	5.9%	507,443	6.0%	496,100	5.9%	(2.2)%
Delta	674,570	8.5%	713,872	8.4%	666,101	7.6%	633,772	7.1%	687,104	7.3%	618,127	7.2%	900,510	10.7%	919,323	10.9%	2.1%
Frontier	140,846	1.8%	152,917	1.8%	171,544	2.0%	196,598	2.2%	231,926	2.5%	203,689	2.4%	196,628	2.3%	209,239	2.5%	6.4%
Hawaiian	101,847	1.3%	108,798	1.3%	112,410	1.3%	154,932	1.7%	160,939	1.7%	100,626	1.2%	90,874	1.1%	98,887	1.2%	8.8%
Jet Blue	119,517	1.5%	118,762	1.4%	161,594	1.8%	151,984	1.7%	224,205	2.4%	235,199	2.8%	167,031	2.0%	141,684	1.7%	(15.2)%
Midwest	-	-	-	-	18,688	0.2%	34,551	0.4%	42,763	0.5%	8,380	0.1%	-	-	-	-	-
Northwest	310,795	3.9%	319,790	3.8%	292,393	3.3%	286,952	3.2%	295,724	3.1%	272,684	3.2%	-	-	-	-	-
Southwest	2,741,470	34.5%	2,866,405	33.9%	2,979,763	34.1%	3,106,431	34.9%	3,306,386	35.2%	3,122,090	36.6%	3,183,084	37.7%	3,277,931	38.8%	3.0%
Sun County	21,515	0.3%	27,339	0.3%	41,091	0.5%	45,931	0.5%	44,454	0.5%	35,885	0.4%	24,984	-	24,175	0.3%	(3.2)%
United	939,722	11.8%	982,535	11.6%	989,744	11.3%	978,816	10.4%	927,023	10.9%	920,960	10.9%	920,960	10.9%	878,307	10.4%	(4.6)%
US Airways	241,167	3.0%	251,629	3.0%	212,622	2.4%	300,568	3.4%	552,751	5.9%	563,392	6.6%	512,558	6.1%	523,378	6.2%	2.1%
Virgin America	-	-	-	-	-	-	57,292	0.6%	155,649	1.8%	151,110	1.8%	151,110	1.8%	133,377	1.6%	(11.7)%
Other	-	-	8,439	0.1%	27,329	0.3%	8,128	0.1%	47,257	0.5%	25,457	0.3%	51,541	0.6%	47,545	0.6%	(7.8)%
<b>Total Air Carrier</b>	<b>7,431,361</b>	<b>93.5%</b>	<b>7,852,962</b>	<b>92.9%</b>	<b>8,142,456</b>	<b>93.1%</b>	<b>8,339,558</b>	<b>93.8%</b>	<b>8,754,541</b>	<b>93.2%</b>	<b>8,056,527</b>	<b>94.4%</b>	<b>7,956,178</b>	<b>94.1%</b>	<b>8,006,625</b>	<b>94.9%</b>	<b>0.6%</b>
<b>Commuter</b>																	
American Eagle	276,485	3.5%	288,843	3.4%	287,136	3.3%	275,087	3.1%	238,147	2.5%	232,289	2.7%	207,272	2.5%	155,421	1.8%	(25.0)%
SkyWest Airlines	197,359	2.5%	193,272	2.3%	202,812	2.3%	-	-	-	-	-	-	-	-	-	-	-
SkyWest-Delta Connection	-	-	-	-	-	-	55,646	0.6%	36,610	0.4%	66,783	0.8%	93,380	-	92,818	1.1%	(0.6)%
SkyWest-United Express	-	-	-	-	-	-	161,956	1.8%	140,502	1.5%	136,760	1.6%	178,386	2.1%	179,547	2.1%	0.7%
Express Jet	-	-	-	-	-	-	17,603	0.2%	202,429	2.2%	36,034	0.4%	-	-	-	-	-
Mesa Airlines	42,235	0.5%	114,010	1.4%	117,330	1.3%	42,219	0.5%	17,098	0.2%	7,381	0.1%	18,670	0.2%	6,709	0.1%	(64.1)%
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Commuter</b>	<b>516,079</b>	<b>6.5%</b>	<b>596,125</b>	<b>7.1%</b>	<b>607,278</b>	<b>6.9%</b>	<b>552,511</b>	<b>6.2%</b>	<b>634,786</b>	<b>6.8%</b>	<b>479,247</b>	<b>5.6%</b>	<b>497,708</b>	<b>5.9%</b>	<b>434,495</b>	<b>5.1%</b>	<b>(12.7)%</b>
<b>Total Enplanements</b>	<b>7,947,440</b>	<b>100%</b>	<b>8,449,107</b>	<b>100%</b>	<b>8,749,734</b>	<b>100.0%</b>	<b>8,892,069</b>	<b>100%</b>	<b>9,389,327</b>	<b>100%</b>	<b>8,535,774</b>	<b>100%</b>	<b>8,453,886</b>	<b>100%</b>	<b>8,441,120</b>	<b>100%</b>	<b>(0.2)%</b>

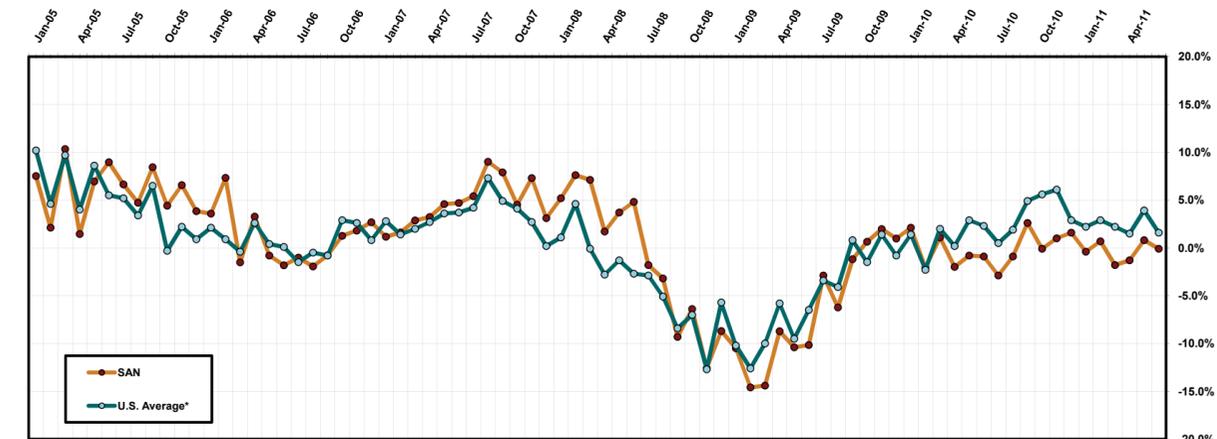
Source: San Diego County Regional Airport Authority

OPERATING INFORMATION

**Exhibit S-14**

Year Over Year Percentage Growth in Passenger Enplanements,  
SDIA vs. US

**TOTAL EPAX - % CHANGE OVER PRIOR YEAR**



\* U.S. Average is based on T-100 Market Reporting Data from the DOT Bureau of Transportation Statistics.

This chart compares SDIA's year over year enplanement change compared to the US scheduled mainline service.

Source: San Diego County Regional Airport Authority and US Dept of Transportation's T-100 enplanement data.  
Information presented reflects those years that comparable information is available.



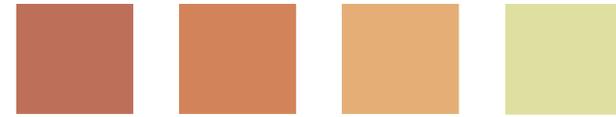
OPERATING INFORMATION

**Exhibit S-15**

Population and Per Capita Personal Income San Diego County (2000-2010)

Calendar Year	Estimated Population <sup>[1]</sup>		Per Capita Personal Income <sup>[2]</sup>		Total Personal Income <sup>[2]</sup>	
	Population	% Change	Income	% Change	Income	% Change
2000	2,813,833	2.3 %	\$ 32,789	8.4 %	92,262,770,237	10.9 %
2001	2,865,208	1.8 %	33,801	3.1 %	96,846,895,608	5.0 %
2002	2,922,758	2.0 %	34,612	2.4 %	101,162,499,896	4.5 %
2003	2,975,082	1.8 %	35,676	3.1 %	106,139,025,432	4.9 %
2004	3,011,770	1.2 %	38,452	7.8 %	115,808,580,040	9.1 %
2005	3,038,074	0.9 %	40,383	5.0 %	122,686,542,342	5.9 %
2006	3,065,077	0.9 %	42,801	6.0 %	131,188,360,677	6.9 %
2007	3,100,132	1.1 %	45,911	7.3 %	142,330,160,252	8.5 %
2008	3,131,552	1.0 %	46,649	1.6 %	146,083,769,248	2.6 %
2009	3,173,407	1.3 %	42,325	(9.3)%	134,314,451,275	(8.1)%
2010	3,091,579	(2.6)%	43,104	1.8 %	133,259,421,216	(0.8)%

Sources:  
 [1] California Department of Finance, E-1 Population Estimates for Cities, Counties and the State, at January 1st of the calendar years shown.  
 [2] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, Local Area Personal Income

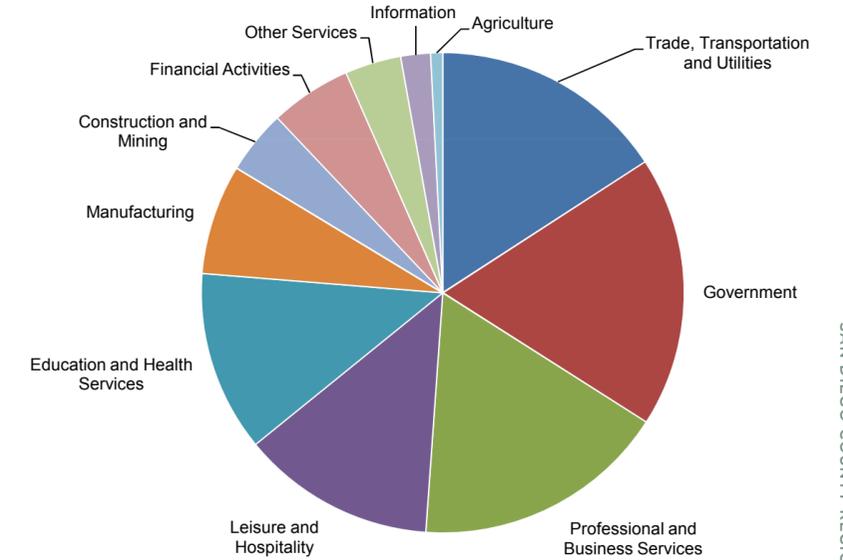


**Exhibit S-17**

San Diego County Employment by Industry Sector

Industry Sectors	June 2011 Industry Employment	% of Total
Trade, Transportation and Utilities	198,700	15.8%
Government	229,000	18.2%
Professional and Business Services	214,700	17.1%
Leisure and Hospitality	163,200	13.0%
Education and Health Services	152,900	12.2%
Manufacturing	93,100	7.4%
Construction and Mining	53,800	4.3%
Financial Activities	68,500	5.5%
Other Services	47,400	3.8%
Information	24,900	2.0%
Agriculture	10,200	0.8%
<b>Total</b>	<b>1,256,400</b>	

Source: California Employment Development Dept., Labor Market Info: Industry Employment, March 2010 Benchmark



**Exhibit S-16**

Principal Employers in San Diego County

Employer	2011			Percentage of Total Industry Employment	2010			Percentage of Total Industry Employment
	Local Employees	Rank	Sector		Local Employees	Rank	Sector	
U.S. Federal Government	44,000	1	Government	3.50%	43,000	1	Government	3.27%
State of California	42,300	2	Government	3.37%	35,600	2	Government	2.71%
University of California, San Diego	26,823	3	Education	2.13%	20,653	3	Education	1.57%
County of San Diego	15,391	4	Government	1.23%	16,555	4	Government	1.26%
Sharp Health Care	14,832	5	Health Care	1.18%	8,003	7	Health Care	0.61%
San Diego Unified School District	14,485	6	Education	1.15%	12,784	5	Education	0.97%
Scripps Health	13,823	7	Health Care	1.10%	-	-	-	-
Qualcomm Inc.	11,847	8	Technology	0.94%	7,000	9	Technology	0.53%
City of San Diego	10,470	9	Government	0.83%	11,500	6	Government	0.88%
Kaiser Foundation	7,404	10	Health Care	0.59%	6,600	10	Health Care	0.50%

Total Industry Employment in San Diego County (2011): **1,256,400**

Source: Employers - San Diego Daily Transcript; 2011 Book of Lists, published December 2010; Total Industry Employment - California Employment Development Dept., Labor Market Info June 2011-March 2010 Benchmark  
 Fiscal Year 2002 information not available

**Exhibit S-18**

Labor Force, Employment, and Unemployment Rates

Year	Labor Force	Employment	Unemployment	Unemployment Rate	
				SD County	State
2004	1,492,400	1,421,700	70,700	4.7%	6.2%
2005	1,507,800	1,442,700	65,100	4.3%	5.4%
2006	1,518,000	1,457,500	60,500	4.0%	4.9%
2007	1,542,500	1,471,600	70,900	4.6%	5.4%
2008	1,555,100	1,462,300	92,900	6.0%	7.2%
2009	1,557,400	1,406,100	151,300	9.7%	11.4%
*2010	1,558,200	1,393,900	164,300	10.5%	12.4%

Source: California Employment Development Dept.  
 \* Report 400 C Annual Average 2010, revised May 20, 2011, March 2010 Benchmark (not seasonally adjusted)



**Exhibit S-19**  
Revenue Bond Debt Service Coverage

Fiscal Year	Airport Revenues Per Trust Agreement	O&M Expenses Per Trust Agreement	Net Revenues Available for Debt Service	Debt Service Requirements			Coverage (x)	Coverage (x)
				Principal	Interest	Total		
2004	\$ 99,190,423	\$ 82,489,503	\$ 16,700,920	\$ 2,245,000	\$ 3,308,606	\$ 5,553,606	3.01	746,536
2005	112,505,787	90,919,846	21,585,941	2,355,000	3,197,029	5,552,029	3.89	605,720
* 2006	124,431,565	98,582,908	25,848,657	5,995,000	2,949,705	8,944,705	2.89	2,074,518
2007	136,607,062	107,034,089	29,572,973	2,670,000	2,665,725	5,335,725	5.54	481,737
2008	144,379,188	114,375,096	30,004,092	2,805,000	2,532,225	5,337,225	5.62	498,962
2009	138,334,601	115,221,068	23,113,533	2,950,000	2,391,975	5,341,975	4.33	681,801
2010	138,113,792	116,275,132	21,838,660	3,105,000	2,244,475	5,349,475	4.08	760,583
** 2011	152,654,122	117,100,946	35,553,176	3,980,000	8,752,640	12,732,640	2.79	1,425,355

Source: San Diego County Regional Airport Authority  
Information presented reflects those years that the Authority was in operation.

\* The increase in debt service requirements in 2006 was due to principal and interest payments required on both the Airport Revenue Bonds, Series 1995 and the Airport Revenue Refunding Bonds, Series 2005.

\*\* The increase in the 2011 debt service requirements is due to the a new bond issued October 2010.



**Exhibit S-20**  
Debt Per Enplaned Passenger

Fiscal Year	Outstanding Revenue Bond Debt	Outstanding Commercial Paper Debt	Total Outstanding Debt	Enplaned Passengers	Debt per Enplaned Passenger
2004	\$ 62,960,000	\$ 51,694,000	\$ 114,654,000	7,947,440	\$ 14.43
2005	60,605,000	51,694,000	112,299,000	8,449,107	13.29
2006	56,270,000	51,694,000	107,964,000	8,749,734	12.34
2007	52,755,000	51,694,000	104,449,000	8,892,069	11.75
2008	50,085,000	49,430,000	99,515,000	9,389,327	10.60
2009	47,280,000	84,430,000	131,710,000	8,535,774	15.43
2010	44,330,000	164,430,000	208,760,000	8,453,886	24.69
2011	613,790,000	21,509,000	635,299,000	8,441,120	75.26

Source: San Diego County Regional Airport Authority  
Information presented reflects those years that the Authority was in operation.

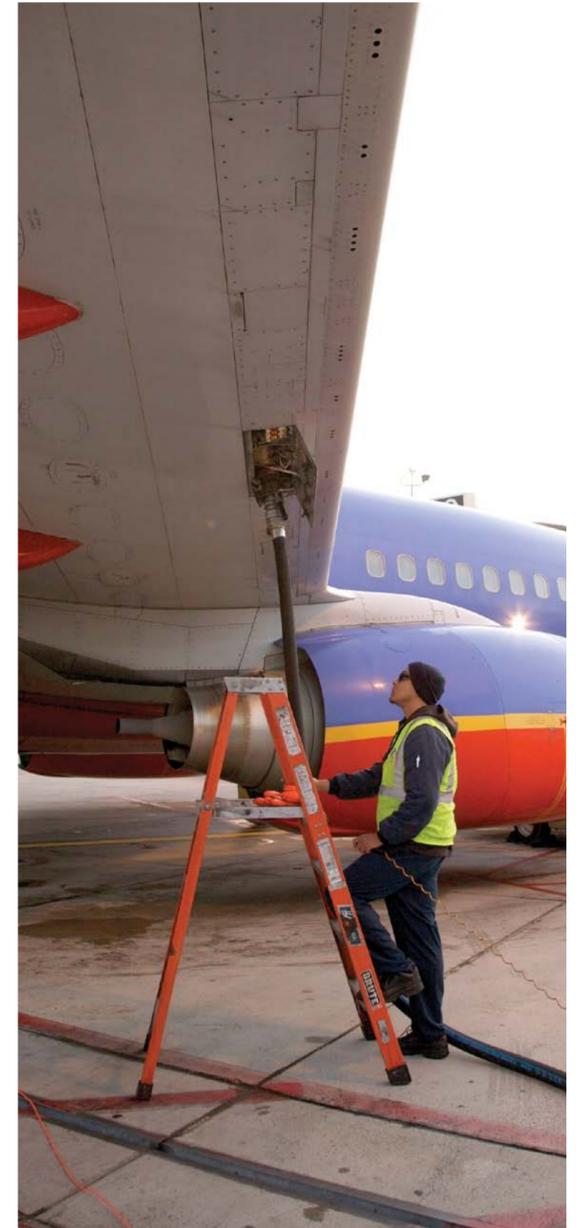
**Exhibit S-21**  
Capital Assets

**San Diego International Airport**

Number of runways	1
Length of runway (feet)	9,401 feet
Gates	41
Commuter plane parking positions	10
Terminal Square footage	827,856
Airport Land Area	661 acres
On airport parking spaces (public)	1,113
Off airport parking spaces (public)	5,079

Source: San Diego County Regional Airport Authority

The parking spaces shown above are controlled and operated by the Airport Authority





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